# Goldgroup Mining Inc.

Consolidated Financial Statements
For the years ended December 31, 2019 and 2018
(expressed in thousands of US dollars, except where indicated)

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Goldgroup Mining Inc.

***Opinion***

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

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

***Basis for Opinion***

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

***Material Uncertainty Related to Going Concern***

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has experienced recurring operating losses and has an accumulated deficit of $144,070 as at December 31, 2019. In addition as at December 31, 2019, the Company has a working capital deficiency of $3,245. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

***Other Information***

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor’s report is Guy Thomas.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

March 30, 2020

# Goldgroup Mining Inc.

## Consolidated Statements of Financial Position

(amounts expressed in thousands of US dollars, except where indicated)

| | Note | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 6 | $ 560 | $ 329 |
| Other receivables and prepaid expenses | 5,6 | 514 | 712 |
| Investments | 6,8 | 371 | 367 |
| Inventory | 7 | 1,956 | 2,453 |
| | | 3,401 | 3,861 |
| Receivables | 5 | 1,109 | 1,674 |
| Property, plant and equipment | 9 | 1,835 | 2,557 |
| Right of use asset | 15 | 319 | - |
| Exploration and evaluation properties | 10 | - | 2,524 |
| Mineral property | 12 | 3,018 | 3,903 |
| Total assets | | $ 9,682 | $ 14,519 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 6 | $ 4,951 | $ 5,518 |
| Tax payable | 6 | 349 | 250 |
| Current lease liability | 15 | 300 | - |
| Decommissioning obligation | 14 | 313 | 313 |
| Loan payable | 6,13 | 733 | 900 |
| | | 6,646 | 6,981 |
| Warrant liability | 6,16 | - | 8 |
| Loan payable | 6,13 | - | 733 |
| Lease liability | 15 | 42 | - |
| Decommissioning obligation | 14 | 1,318 | 1,258 |
| Total liabilities | | 8,006 | 8,980 |
| **Shareholders' equity** | | | |
| Share capital | 17 | 134,405 | 134,405 |
| Contingent share consideration | 23 | 3,305 | 3,305 |
| Reserves | | 8,036 | 8,030 |
| Deficit | | (144,070) | (140,201) |
| Total shareholders' equity | | 1,676 | 5,539 |
| Total liabilities and shareholders' equity | | $ 9,682 | $ 14,519 |

*Nature of operations and going concern (note 1)*
*Commitments (note 23)*

**Approved by the Board of Directors**

___________"Javier Reyes"_____________ Director ________"Corry Silbernagel"_________ Director

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

# Goldgroup Mining Inc.

## Consolidated Statements of Loss and Comprehensive Loss

For the year ended December 31, 2019 and 2018
(amounts expressed in thousands of US dollars, except where indicated)

| | Note | 2019 | 2018 |
|---|---|---|---|
| **Revenue** | | | |
| Gold sales | | $ 19,050 | $ 20,399 |
| Silver sales | | 319 | 694 |
| | | 19,369 | 21,093 |
| **Cost of operation** | | | |
| Cost of sales | 19 | (16,023) | (17,139) |
| Depreciation and depletion | | (2,326) | (3,265) |
| | | 1,020 | 689 |
| Depreciation | 9,15 | (122) | (7) |
| Share-based compensation | 17 | (6) | (78) |
| General and administrative | | (856) | (799) |
| Salary and consulting | | (621) | (736) |
| Professional fees | | (1,204) | (1,126) |
| Gain on sale of property and equipment | | 3 | - |
| Unrealized gain on investments | 8 | 529 | 228 |
| Finance cost | 20 | (324) | (399) |
| Gain on reversal of accounts payable | 6 | 591 | - |
| Bad debt (expense) reversal | 26 | 100 | (928) |
| Write-off of obsolete property and equipment | | - | (3) |
| Impairment – exploration and evaluation assets | 10 | (2,606) | - |
| Unrealized derivative gain – warrant liability | 16 | 8 | 59 |
| Foreign exchange gain (loss) | | (2) | (47) |
| Other income | | 71 | 25 |
| **Loss before income taxes** | | (3,419) | (3,122) |
| Income taxes expense – current | 21 | (450) | (428) |
| Income taxes recovery (expense) – future | 21 | - | 326 |
| **Loss for the year** | | (3,869) | (3,224) |
| **Loss per share – basic & diluted** | | $ (0.02) | $ (0.02) |
| **Weighted average shares outstanding (000's) – basic & diluted** | | 185,137 | 185,137 |
| **Total shares issued and outstanding (000's)** | | 185,137 | 185,137 |

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

**Goldgroup Mining Inc.**

Consolidated Statements of Cash Flows

For the year ended December 31, 2019 and 2018

(amounts expressed in thousands of US dollars, except where indicated)

| | Notes | 2019 | 2018 |
|---|---|---|---|
| **Cash provided by (used in) operating activities** | | | |
| Loss for the year | | $ (3,869) | $ (3,224) |
| Items not affecting cash: | | | |
| Depreciation | 9,10,15 | 1,474 | 2,453 |
| Depletion | 12 | 885 | 812 |
| Deferred tax expense (recovery) | 21 | - | (326) |
| Impairment of inventory in cost of sales | 7 | 202 | 171 |
| Share-based compensation | 17 | 6 | 78 |
| Unrealized foreign exchange loss (gain) | | (9) | 24 |
| Finance cost | | 260 | 378 |
| Gain on reversal of AP | | (591) | - |
| Bad debt expense | 26 | - | 928 |
| Decommissioning obligation accretion | 14 | 60 | 16 |
| Unrealized derivative gain – warrant liability | 16 | (8) | (59) |
| Gain on settlement of decommissioning liability | | - | 3 |
| Impairment – exploration and evaluation property | 10 | 2,606 | - |
| Gain on disposal of available for sale investments | 8 | (529) | (228) |
| Change in non-cash operating working capital: | | | |
| (Increase) decrease in other receivables and prepaid expenses | | 444 | (1,291) |
| Increase in inventory | | 212 | 356 |
| Increase (decrease) in tax payable | | 99 | (52) |
| Increase in accounts payable and accrued liabilities | | 509 | 828 |
| | | 1,751 | 867 |
| **Cash flows provided by (used in) financing activities** | | | |
| Lease payments | 15 | (300) | - |
| Repayment of loan from Credipresto | 13 | - | (1,379) |
| Repayment of Accendo loan | 13 | (900) | (173) |
| Proceeds from Accendo loan | 13 | - | 1,800 |
| Repayment of interest on Accendo loan | 13 | (190) | (63) |
| | | (1,390) | 185 |
| **Cash flows provided by (used in) investing activities** | | | |
| Purchase of property, plant and equipment | 9 | (280) | (693) |
| Proceeds from sale of investments | 8 | 534 | - |
| Exploration and evaluation property – Batamote | 10 | (165) | (900) |
| Exploration and evaluation property | 10 | (219) | (506) |
| | | (130) | (2,099) |
| **Increase in cash and cash equivalents** | | 231 | (1,047) |
| **Cash and cash equivalents – beginning of year** | | 329 | 1,376 |
| **Cash and cash equivalents – end of year** | | $ 560 | $ 329 |

Supplemental cash flow information (note 25)

**Goldgroup Mining Inc.**

# Consolidated Statement of Changes in Shareholders' Equity

(amounts expressed in thousands of US dollars, except where indicated)

| | Notes | Shares ('000) | Share capital | Contingent shares (Note 23) | Share based compensation reserves | Foreign currency translation reserves | Investment revaluation reserves | Deficit | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| **January 1, 2019** | | 185,137 | $ 134,405 | $ 3,305 | $ 8,338 | $ (308) | $ - | $ (140,201) | $ 5,539 |
| Loss for the year | | - | - | - | - | - | - | (3,869) | (3,869) |
| Share-based compensation | 17 | - | - | - | 6 | - | - | - | 6 |
| **Balance at December 31, 2019** | | 185,137 | $ 134,405 | $ 3,305 | $ 8,344 | $ (308) | $ - | $ (144,070) | $ 1,676 |
| | | | | | | | | | |
| **January 1, 2018** | | 185,137 | $ 134,405 | $ 3,305 | $ 8,260 | $ (308) | $ (37) | $ (136,940) | $ 8,685 |
| Loss for the year | | - | - | - | - | - | - | (3,224) | (3,224) |
| Reclass of investment revaluation reserve to deficit | | - | - | - | - | - | 37 | (37) | - |
| Share-based compensation | 17 | - | - | - | 78 | - | - | - | 78 |
| **Balance at December 31, 2018** | | 185,137 | $ 134,405 | $ 3,305 | $ 8,338 | $ (308) | $ - | $ (140,201) | $ 5,539 |

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

# 1 Nature of operations and Going Concern

*Nature of operations*

Goldgroup Mining Inc. is the parent company of its consolidated group ("Goldgroup" or the "Company"). Goldgroup was incorporated in Quebec under the Business Corporations Act (Québec) and on July 28, 2011 it was continued under the Business Corporations Act (British Columbia). Its head office is located at Suite 1201 – 1166 Alberni Street, Vancouver BC, V6E 3Z3. Goldgroup together with its subsidiaries, is a Canadian-based gold producer and is focused on the acquisition, exploration and development of advanced stage gold-bearing mineral properties in the Americas. The Company's current gold production and exploration and development related activities are conducted in Mexico and Ecuador. Goldgroup owns a property portfolio that includes a 100% interest in the operating Cerro Prieto project in Sonora, which commenced commercial production on April 1, 2016 for accounting purposes. The Company is listed on the Toronto Stock Exchange ("TSX") under the symbol "GGA".

*Going Concern*

The Company has experienced recurring operating losses and has an accumulated deficit of $144,070 at December 31, 2019 (December 31, 2018 – $140,201). In addition, as at December 31, 2019, the Company has working capital deficit of $3,245 (December 31, 2018 – working capital $3,120). Working capital is defined as current assets less current liabilities and provides a measure of the Company's ability to settle liabilities that are due within one year with assets that are also expected to be converted into cash within one year. The continuing operations of the Company are dependent upon its ability to arrange additional financing and resolving the legal disputes with DynaResource, Inc. ("DynaUSA") (note 11). These matters result in material uncertainties which may cast significant doubt about the Company on its ability to continue as a going concern. These financial statements do not include any adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern basis was not appropriate for these financial statements, then adjustments would be necessary in the carrying value of assets and liabilities, the reported revenues and expenses, and the classifications used in the statement of financial position.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company's business or results of operations at this time.

# 2 Basis of presentation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The policies set out below were consistently applied to all the years presented.

The Board of Directors approved these consolidated financial statements on March 30, 2020.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments which are measured at fair value.

*New Accounting Standards Adopted during the period*

IFRS 16 – Leases

On January 1, 2019, the Company adopted IFRS 16 – Leases ("IFRS 16") which replaced IAS 17 – Leases and IFRIC 4 – Determining Whether an Arrangement Contains a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases. IFRS 16 eliminates the classification of leases as either operating leases or finance leases for a lessee. Instead, all leases are treated in a similar way to finance leases applied in IAS 17. IFRS 16 does not require a lessee to recognize assets and liabilities for short-term leases (i.e. leases of 12 months or less), leases with certain variable lease payments and leases of low-value assets.

The Company applied IFRS 16 using the modified retrospective method. Under this method, financial information will not be restated and will continue to be reported under the accounting standards in effect for those periods. The Company recognized lease liabilities related to its lease commitments for its office leases. The lease liabilities are measured at the present value of the remaining lease payments, discounted using the Company's estimated incremental borrowing rate as at January 1, 2019, the date

of initial application, resulting in no adjustment to the opening balance of deficit. The associated right-of-use assets is measured at the lease liabilities amount. The Company has implemented the following accounting policies permitted under the new standard:

- leases of low dollar value will continue to be expensed as incurred; and
- the Company will not apply any grandfathering practical expedients.

As at January 1, 2019, the Company recognized $572 in right-of-use assets and $572 in lease liabilities as summarized below.

| | |
|---|---|
| Minimum lease payments under operating leases as of December 31, 2018 | $ 680 |
| Effect from discounting at the incremental borrowing rate as of January 1, 2019 | (108) |
| Lease liabilities recognized as of January 1, 2019 | 572 |
| Right-of-use assets recognized as of January 1, 2019 | $ 572 |

The lease liabilities were discounted at a discount rate of 15% as at January 1, 2019.

New accounting policy for leases under IFRS 16

The following is the accounting policy for leases as of January 1, 2019 upon adoption of IFRS 16:

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Corporation assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. 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 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, less any lease incentives received.

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 remeasurements 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 is 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 the 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 profit or loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

# 3 Estimates, risks and uncertainties

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

The Company's management makes judgments in its process of applying the Company's accounting policies in the preparation of its consolidated financial statements. In addition, the preparation of the financial data requires that the Company's management make assumptions and estimates of the effects of uncertain future events on the carrying amounts of the Company's assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates as the estimation process is inherently uncertain. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates and the resulting effects on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

***Significant judgments in applying accounting policies***

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations, that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are as follows:

**(i) Impairment of assets**

The carrying value of property, plant and equipment, exploration and evaluation properties and the Company's mineral property is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in profit or loss. The assessment of fair values, including those of the cash-generating units, require the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of assets could impact the impairment analysis.

**(ii) Economic recoverability and probability of future economic benefits of exploration and development costs**

Management has determined that exploratory drilling and evaluation costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic and metallurgic information, history of conversion of mineral deposits to proven and probable reserves, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

**(iii) Functional currency**

The functional currency for each of the Company's subsidiaries, joint ventures and investments in associates, is the currency of the primary economic environment in which the entity operates. The Company has determined the functional currency of each entity is the US dollar. Determination of functional currency may involve certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

**(iv) Commencement of commercial production**

Costs associated with the commissioning of new assets, in the pre-commercial period before they are operating in the way intended by management, are capitalized, net of any pre-production revenues. Commercial production is deemed to have occurred when management determines that, amongst other items, the completion of operational commissioning of major mine components has been reached, operating results, which includes the grade and volume of material mined, are being achieved consistently for a period of time, and there are indicators that these operating results will continue, all of which involve management judgments. The Company processed material extracted from an exploration and evaluation property (Batamote) through the mill of the adjacent Cerro Prieto production property until March 31, 2019. The costs associated with the Batamote option payments were amortized through depreciation and depletion over the term of each option period. The revenue generated from the Batamote property was recognized as revenue through profit or loss.

***Key sources of Estimation Uncertainty***

The areas which require management to make significant estimates and assumptions in determining carrying values include, but are not limited to:

**(i) Mineral resource estimation**
The carrying value and recoverability of mineral properties requires management to make certain estimates, judgments and assumptions about each project. Management considers the economics of the project, including the latest resources prices and the long-term forecasts, and the overall economic viability of the project. The determination of mineral resources also requires the use of estimates. The Company estimates its mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101, Standards for Disclosure of Mineral Projects. There are numerous uncertainties inherent in estimating mineral resources and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecasted prices of commodities, exchange rates, production costs or recovery rates may change the economic status of resources and may result in changes to resource estimates.

**(ii) Depreciation and depletion**
Plants and other facilities used directly in mining activities are depreciated using the units-of-production (“UOP”) method over a period not to exceed the estimated life of the ore body based on recoverable ounces to be mined from estimated resources. Mobile and other equipment are depreciated, net of residual value, on a straight-line basis, over the useful life of the equipment to the extent that the useful life does not exceed the related estimated life of the mine based on estimated recoverable resources.

The calculation of the UOP rate, and therefore the annual depreciation and depletion expense, could be materially affected by changes in the underlying estimates. Changes in estimates can be the result of actual future production differing from current forecasts of future production, expansion of mineral reserves through exploration activities, differences between estimated and actual costs of mining and differences in gold price used in the estimation of mineral reserves.

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation and depletion and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

**(iii) Inventories**
Expenditures incurred, and depreciation and depletion of assets used in mining and processing activities are deferred and accumulated as the cost of ore in stockpiles, ore on leach pads, in-process and finished metal inventories. These deferred amounts are carried at the lower of average cost or net realizable value (“NRV”). Write-downs of ore in stockpiles, ore on leach pads, in-process and finished metal inventories resulting from NRV impairments are reported as a component of current period costs. The primary factors that influence the need to record write-downs include prevailing and long-term metal prices and prevailing costs for production inputs such as labour, fuel and energy, materials and supplies, as well as realized ore grades and actual production levels.

Costs are attributed to the leach pads based on current mining costs, including applicable depreciation and depletion relating to mining operations incurred up to the point of placing the ore on the pad. Costs are removed from the leach pad based on the average cost per recoverable ounce of gold on the leach pad as the gold is recovered. Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the pads, the grade of ore placed on the leach pads and an estimated percentage of recovery. Timing and ultimate recovery of gold contained on leach pads can vary significantly from the estimates. The quantities of recoverable gold placed on the leach pads are reconciled to the quantities of gold actually recovered (metallurgical balancing), by comparing the grades of ore placed on the leach pads to actual ounces recovered. The nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As a result, the metallurgical balancing process is constantly monitored and the engineering estimates are refined based on actual results over time. The ultimate recovery of gold from a pad will not be known until the leaching process is completed.

The allocation of costs to ore on leach pads and in-process inventories and the determination of NRV involve the use of estimates. There is a high degree of judgment in estimating future costs, future production levels, proven and probable reserves estimates, gold and silver prices, and the ultimate estimated recovery for ore on leach pads. There can be no assurance that actual results will not differ significantly from estimates used in the determination of the carrying value of inventories. Such inventories are included in development costs until commercial production is achieved.

**(iv) Decommissioning and restoration provision**

The Company assesses its provision for reclamation and remediation on an annual basis or when new material information becomes available. Mining and exploration activities are subject to various laws and regulations governing the protection of the environment. In general, these laws and regulations are continually changing and the Company has made, and intends to make in the future, expenditures to comply with such laws and regulations. Accounting for reclamation and remediation obligations requires management to make estimates of the future costs the Company will incur to complete the reclamation and remediation work required to comply with existing laws and regulations at each mining operation and exploration and development property. Actual costs incurred may differ from those amounts estimated. Also, future changes to environmental laws and regulations could increase the extent of reclamation and remediation work required to be performed by the Company. Increases in future costs could materially impact the amounts charged to operations for reclamation and remediation. The provision represents management's best estimate of the present value of the future reclamation and remediation obligation. The actual future expenditures may differ from the amounts currently provided.

**(v) Share-based payments**

Share-based payments are determined using the Black-Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to profit or loss over each award's vesting period. The Black-Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

For asset acquisitions, contingent share consideration is an estimate of the fair value of the contingent amounts expected to be payable in the future. The fair value is based on number of contingent shares, the share price of the Company on the date of acquisition and management's expectations of probability.

**(vi) Contingencies**

Due to the size, complexity and nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in its consolidated financial statements on the date such changes occur

**(vii) Deferred taxes**

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. Forecasted cash flows from operations are based on life of mine projections internally developed and reviewed by management. The likelihood that tax positions taken will be sustained upon examination by applicable tax authorities is assessed based on individual facts and circumstances of the relevant tax position evaluated in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. At the end of each reporting period, the Company reassesses unrecognized income tax assets.

**(viii) Impairment**

Non-current assets are tested for impairment if there is an indicator of impairment, and in the case of goodwill, at least annually. The impairment analysis requires the use of estimates and assumptions, including amongst others, long-term commodity prices, discount rates, length of mine life, future production levels, future operating costs, future capital expenditures and tax estimates. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances the carrying value of the assets may be impaired or a prior period's impairment charge reversed with the impact recorded in profit or loss.

Current assets include receivables which are reviewed for collectability that may be affected by default, delays and other economic indicators.

**(ix) Valuation of right-of-use asset and lease liabilities**

The application of IFRS 16 requires the Company to make judgments that affect the valuation of the right-of-use assets and the valuation of lease liabilities. These include: determining agreements in scope of IFRS 16, determining the contract term and determining the interest rate used for discounting of future cash flows.

The lease term determined by the Company is comprised of the non-cancellable period of lease agreements, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

The present value of the lease payment is determined using a discount rate representing the rate of its loan payable observed in the period when the lease agreement commences or is modified.

# 4 Significant accounting policies

**Principles of consolidation**

*Subsidiaries*

Subsidiaries are all entities controlled by the Company. An investor controls an investee when it is exposed or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. These consolidated financial statements include the financial statements of the Company and its subsidiaries:

| | Property | Location | As at December 31, 2019 | As at December 31, 2018 |
|---|---|---|---|---|
| **Subsidiaries** | | | | |
| Granmin Malaysia Ltd. (“Granmin Malaysia”) | - | Malaysia | 100% | 100% |
| Granmin SA de CV (“Granmin Mexico”) | - | Mexico | 100% | 100% |
| Minera Calipuy SA de CV (“Calipuy”) | - | Mexico | 100% | 100% |
| Goldgroup Resources Inc. (“Holdings”) | - | Canada | 100% | 100% |
| 0919921 B.C. Ltd. | - | Mexico | 100% | 100% |
| 0788598 B.C. Ltd. | - | Canada | 100% | 100% |
| 0788601 B.C. Ltd. | - | Canada | 100% | 100% |
| 091152 B.C. Ltd. | - | Canada | 100% | 100% |
| Minera Polimetalicos Mexicanos S.A. | - | Panama | 100% | 100% |
| Minas de Oroco Resources SA de CV | Cerro Prieto | Mexico | 100% | 100% |
| Minera Cardel SA de CV (“Minera Cardel”) | - | Mexico | 100% | 100% |
| Goldgroup Ecuador Holdings Inc. | El Mozo | Ecuador | 0%* | 80%* |
| DynaResource de Mexico SA de CV (“DynaMexico”) | San José de Gracia | Mexico | 50% | 50% |

All intercompany transactions and balances have been eliminated on consolidation.

*The Company held an option to earn into 80% of the El Mozo property (note 10). During the year ended December 31, 2019, the Company abandoned the project.

*Investment in associates:*

Associates are entities over which the Company has significant influence and that are neither subsidiaries nor interests in joint ventures. Significant influence is the ability to participate in the financial and operating policy decisions of the investee without having control or joint control over those policies. In general, significant influence is presumed to exist when the Company has between 20% and 50% of voting power. Significant influence may also be evidenced by factors such as the Company’s representation on the board of directors, participation in policy-making of the investee, material transactions with the investee, interchange of managerial personnel, or the provision of essential technical information. Associates, except when classified as held-for-sale, are equity accounted for from the effective date of commencement of significant influence to the date that the Company obtains control or ceases to have significant influence.

Results of associates are equity accounted for using the results of their most recent annual and interim financial statements. Losses from associates are recognized in the consolidated financial statements until the interest in the associate is written down to nil. Thereafter, losses are recognized only to the extent that the Company is committed to providing financial support to such associates.

The carrying value of the investment in an associate represents the cost of the investment, including a share of the post-acquisition earnings and losses, accumulated other comprehensive income (‘‘AOCI’’) and any impairment losses. At the end of each reporting period, the Company assesses whether there is any objective evidence that its investments in associates are impaired.

**Cash and cash equivalents**

Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of purchase.

**Foreign currency translation**

The consolidated financial statements are presented in US dollars which is also the functional currency of the Company and its subsidiaries. Transactions in foreign currencies are initially recorded at the functional currency rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign exchange gain and losses are included in profit or loss.

**Revenue recognition**

Sales of dore are recognized and revenue is recorded at market prices following the transfer of control to the customer, provided that the Company has a present right to payment, has transferred physical possession of the asset to the customer, and the customer has the significant risks and rewards of ownership. The Company satisfies its performance obligations upon delivery of the dore to the customer.

**Inventories**

Finished goods (doré inventory) and heap leach ore are valued at the lower of average production cost and net realizable value. Doré represents a bar containing predominantly gold by value which must be refined offsite to return saleable metals. Net realizable value is the amount estimated to be obtained from sale of the inventory in the normal course of business, less any anticipated costs to be incurred prior to its sale. The production cost of inventories is determined on a weighted average basis and includes cost of raw materials, direct labour, mine-site overhead and depreciation and depletion of mine properties and plant and equipment.

The recovery of gold and by-products from oxide ores is achieved through the heap leaching process at the Cerro Prieto mine and formally from raw product supplied from Batamote (note 10). Under this method, ore is placed on leach pads where it is treated with a chemical solution which separates the gold contained in the ore. The time required for the majority of the gold to be recovered utilizing heap leaching is over a period of up to 120 days. The resulting "pregnant" solution is further processed in a plant where the gold is recovered. Operating costs at each stage of the process are capitalized and included in work-in-process inventory based on current mining and leaching costs, including applicable depreciation and depletion relating to the mine properties and plant and equipment. These costs are removed from heap leach inventory as ounces of gold are recovered at the average cost per ounce per recoverable ounce of gold on the leach pads. Estimates of recoverable gold on the leach pads are calculated from the quantities of ore placed on the leach pads (measured tonnes added to leach pads), the grade of ore placed on the leach pads (based on assays analysis), and a recovery percentage (based on testing and ongoing monitoring of the rate of gold recoveries).

Consumable supplies and spare parts expected to be used in production are valued at the lower of weighted average cost or net realizable value, which includes the cost of purchase as well as transportation and charges to bring them to their existing location and condition.

A write-down of inventory is recognized as an expense in profit or loss in the period the write-down occurs. Reversal of any write-down of inventory, arising from an increase in net realizable value, is recognized in profit or loss as a reduction in the amount of inventories recognized as an expense in the period in which the reversal occurs.

**Property, Plant and Equipment**

Property, plant and equipment ("PPE") are recorded at cost and carried net of accumulated depreciation and accumulated impairment losses. Costs of additions and improvements are capitalized. An item of PPE is derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds and the carrying amount of the asset is recognized in profit or loss.

Plant and mining equipment assets used in commercial production are subject to depreciation and depletion over their useful life. For buildings and machinery, the UOP method is applied where the mine operating plan calls for production from well-defined mineral deposits. Where total mineral deposits are not determinable because ore bearing structures are open at depth or are open laterally, the straight-line method is applied over the estimated life of the mine.

For transportation, computer and other equipment, the straight-line method is also applied over the estimated useful lives of the assets:

| | **Years** |
|---|---|
| Machinery | 3-5 |
| Office and furniture | 3-5 |
| Vehicles | 3-4 |
| Lab equipment | 3-5 |

Major overhaul expenditures on mobile equipment and other tangible property, including replacement spares and labour costs, are capitalized and amortized over the average expected life between major overhauls. All other replacement spares and other costs relating to maintenance of the mobile equipment are charged to operating costs if it is not probable that future economic benefits will flow to the Company.

**Mineral Properties**

(i) Pre-license costs:

Costs incurred before the Company has obtained the legal right to explore are expensed as incurred.

(ii) Exploration and evaluation costs:

Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized on a property by property basis, including the costs of acquiring, maintaining its interest in, exploring and evaluating mineral properties until such time as the lease expires, the mineral properties abandoned, sold or considered impaired in value or is transferred to mines under construction as development cost. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage.

(iii) Mines under construction and development costs:

When technical feasibility and economic viability of projects have been determined and the decision to proceed with development has been approved, the expenditures related to construction are capitalized as mines under construction and classified as a component of mine properties, property, plant and equipment once an impairment test has been completed. Costs associated with the commissioning of new assets, in the pre-commercial period before they are operating in the way intended by management, are capitalized, net of any preproduction revenues. Commercial production is deemed to have occurred when management determines certain production parameters are met.

In order for production to occur, the Company must first obtain exploitation and other permits on such properties. Such permits are subject to the approval of the local government and government controlled entities. Unless and until such permits are obtained there can be no assurance that such permits will be obtained. As such, permits need to be obtained before costs are reclassified from exploration and evaluation properties to mines under construction.

(iv) Mine properties:

Once a mineral property has been brought into commercial production as intended by management, costs of any additional work on that property are expensed as incurred, except for large development programs, which will be deferred and depleted over the remaining useful life of the related assets. Mine properties include deferred stripping costs and decommissioning and restoration costs related to the reclamation of mine properties. Mine properties are derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds received and the carrying amount of the asset is recognized in profit or loss.

Costs of producing mine properties are depreciated and depleted on the UOP basis using estimated resources. Depreciation or depletion is recorded against the mine property only upon the commencement of commercial production.

Exploration expenditures are expensed as incurred at mine properties, unless the nature of the expenditures are to convert mineral resources into mineral reserves or in the absence of a mineral resource estimate, are to define areas to be included in the mine plan. Any amounts deferred in this regard are depreciated based on the UOP method.

Mine properties are recorded at cost, net of accumulated depreciation and depletion and accumulated impairment losses and are not intended to represent future values.

Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related mineral property.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers, non-compliance with regulatory requirements or title may be affected by undetected defects.

**Stripping Costs**

Stripping costs incurred during the development of a mine are capitalized in mine properties. Stripping costs incurred subsequent to commencement of commercial production are variable production costs that are included in the costs of inventory produced during the period in which the stripping costs are incurred, unless the stripping activity can be shown to give rise to future benefits from the mineral property, in which case the stripping costs would be capitalized. Future benefits arise when stripping activity increases the future output of the mine by providing access to a new ore body. Capitalized stripping costs are depleted based on the UOP method, using mineral reserves as the depletion base.

**Decommissioning and Restoration**

The Company is subject to various governmental laws and regulations relating to the protection of the environment. The environmental regulations are continually changing and are generally becoming more restrictive.

Decommissioning and restoration obligations encompass legal, statutory, contractual or constructive obligations associated with the retirement of a long-lived tangible asset (for example, mine or site reclamation costs) that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is reflected by an other-than-temporary removal from service, including sale of the asset, abandonment or disposal in some other manner.

The present value of a liability for decommissioning and restoration is recorded in the period in which the obligation first arises. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a long-term liability and increases the carrying value of the related assets for that amount. Over time, the liability is increased to reflect an interest element in the estimated future cash flows (accretion expense) considered in the initial measurement of fair value. The capitalized cost is depleted or depreciated on either the unit-of-production basis or the straight-line basis, as appropriate. The Company's estimates of its provision for decommissioning and restoration obligations could change as a result of changes in regulations, changes to the current market-based discount rate, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for in the period in which these estimates are revised.

The cost of decommissioning and restoration related to the Batamote property were expensed over the estimated option term through profit and loss as cost of operations as depletion in the period in which the obligation first arose.

**Impairment of Non-Financial Assets**

For the purposes of assessing impairment, the recoverable amount of an asset, which is the higher of its fair value less costs to sell and its value in use, is estimated. If it is not possible to estimate the recoverable amount of an individual asset, the asset is included in the cash-generating unit to which it belongs and the recoverable amount of the cash generating unit is estimated. As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

Intangible assets with an indefinite useful life and intangible asset not yet available for use are also tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the asset is impaired such as decreases in metal prices, an increase in operating costs, a decrease in mineable reserves or a change in foreign exchange rates. The Company also considers net book value of the asset, the ongoing costs required to maintain and operate the asset, and the use, value and condition of the asset.

An impairment loss is recognised for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. To determine the value-in-use, management estimates expected future cash flows from each asset or cash-

generating unit and determines a suitable interest rate in order to calculate the present value of those cash flows. Future cash flows used in the determination of value in use are estimated based on expected future production, recoverability of reserves, commodity prices, operating costs, reclamation costs and capital costs. Management estimates of future cash flows are subject to risks and uncertainties. It is reasonably possible that changes in estimates could occur which may affect the recoverable amounts of assets, including the Company's investments in mine properties.

Fair value is determined with reference to discounted estimated future cash flow analysis or on recent transactions involving dispositions of similar properties.

An impairment loss for a cash-generating unit is first allocated to reduce the carrying amount of any goodwill allocated to that cash-generating unit. Any remaining impairment loss is allocated on a pro rata basis to the other assets in the cash-generating unit. All assets are subsequently reassessed for indications that an impairment loss previously recognised may no longer exist or may have decreased. An impairment charge is reversed if the cash-generating unit's recoverable amount exceeds its carrying amount. Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) is increased to the revised estimate of its recoverable amount, however 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 cash generating unit) in prior years.

**Provisions**

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as a financing expense. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is certain that a reimbursement will be received and the amount receivable can measured reliably.

**Income Taxes**

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are based on differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects taxable profit or accounting profit. Deferred tax liabilities on temporary differences associated with shares in subsidiaries and joint ventures is not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are measured, without discounting, using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized for all temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different entities which intend to settle current tax assets and liabilities on a net basis or simultaneously in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

**Share-based Payments**

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled transactions and, when determinable, are recorded at the value of the goods and services received. If the value of the goods and services received are not determinable, then the fair value of the share-based payment is used.

The Company uses a fair value based method (Black-Scholes Option Pricing Model) for all share options granted to directors, employees and certain non-employees. For directors and employees, the fair value of the share options is measured at the date of grant. For grants to non-employees where the fair value of the goods or services is not determinable, the fair value of the share options is measured on the date the services are received.

The fair value of share-based payments is charged to profit or loss, with the offsetting credit to share option reserve. For directors and employees, the share options are recognized over the vesting period based on the best available estimate of the number of share options expected to vest. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is recognized in the current period. No adjustment is made to any expense recognized in prior periods where vested. For non-employees, the share options are recognized over the related service period. When share options are exercised, the amounts previously recognized in share option reserve are transferred to share capital.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and/or warrants granted and/or vested during the period.

In the event share options are forfeited prior to vesting, the associated fair value recorded to date is reversed. The fair value of any vested share options that expire remain in share option reserve.

**Contingent share consideration**

When purchase consideration that is contingent on the future event is granted in an acquisition that does not constitute a business combination, the initial cost of the acquisition includes an estimate of the fair value of the contingent amounts expected to be payable in the future.

The fair value of the contingent amounts are based the number of contingent shares, the share price of the Company's on the date of acquisition and management's expectations of probability.

**Earnings (Loss) per Share**

Basic earnings (loss) per share is computed by dividing net earnings (loss) (the numerator) by the weighted average number of outstanding common shares for the period (denominator). When diluted earnings per share is calculated, only those outstanding share options and warrants and other convertible instruments with exercise prices below the average trading price of the Company's common shares for the period will be dilutive.

In the periods when the Company reports a net loss, the effect of potential issuances of shares under share options and other convertible instruments is anti-dilutive. Therefore basic and diluted loss per share is the same.

**Segmented Reporting**

In identifying its operating segments, management generally follows the Company's activities. An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. The activities are undertaken by the mine operating segment and the exploration and development segment and are supported by the corporate segment. Each segment is managed separately. The operating results of the segments are reviewed regularly by the Company's Chief Executive Officer (who is considered the chief operating decision maker) to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

**Financial Instruments - Recognition and Measurements**

*(i) Non-derivative financial assets*

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are classified as FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income/loss.

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash and cash equivalents, and receivables are measured at amortized cost with subsequent impairments recognized in profit or loss. Investments are classified as FVTPL.

Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. The Company recorded a bad debt expense based on the expected credit loss model.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

*(ii) Non-derivative financial liabilities*

Financial liabilities, other than derivatives, are initially recognized at fair value less directly attributable transaction costs. Subsequently, financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities and loan payable are measured at amortized cost.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon recognition as FVTPL. Fair value changes on these liabilities are recognized in profit or loss.

*(iii) Derivative financial instruments*

The Company issues warrants exercisable in a currency other than the Company's functional currency and as a result, the warrants are derivative financial instruments.

Derivative financial instruments are initially recognized at fair value and subsequently measured at fair value with changes in fair value recognized in profit or loss. Transaction costs are recognized in profit or loss as incurred.

**Share Issuance Costs**

Share issue costs, which includes commissions, facilitation payments, professional fees and regulatory fees, are charged directly to share capital.

**Valuation of Equity Units Issued in a Private Placement**

Shares and warrants issued as private placement units are measured using the residual value method whereby value is first allocated to the share component based on its fair value with the residual value being attributed to the warrant.

All of the Company's warrants are exercisable in a currency other than the functional currency of the Company. As a result, the fair value allocated to the warrant is recorded as a derivative financial liability and is marked to market at the end of each period. Upon exercise of the warrant, the fair value of the warrant at the date of exercise is transferred to share capital.

**Comprehensive Income (loss)**

Total comprehensive income (loss) comprises all components of profit or loss and other comprehensive income (loss). Other comprehensive income (loss) includes changes in revaluation surplus, actuarial gains and losses on defined benefit plans, gains and losses from translating the financial statements of a foreign operation.

# 5 Other receivables and prepaid expenses

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| **Current asset** | | |
| **Financial assets** | | |
| Other receivables | $ 4 | $ 45 |
| Employee receivables | 30 | 29 |
| **Non-Financial assets** | | |
| Value-added tax receivables | 83 | 133 |
| Corporate tax receivables | 76 | 78 |
| **Total receivables** | 193 | 285 |
| **Prepaid expenses** | 321 | 427 |
| | $ 514 | $ 712 |
| **Non-current assets** | | |
| **Non-Financial assets** | | |
| Value-added tax receivables | $ 333 | $ 531 |
| Other receivables | 604 | 830 |
| Corporate tax receivables | 172 | 313 |
| | $ 1,109 | $ 1,674 |

# 6 Financial instruments

**Fair values of financial instruments**

The accounting classification of each category of financial instruments, and the level within the fair value hierarchy in which they have been classified are set out below:

| | Fair Value Hierarchy Level | December 31, 2019 | December 31, 2018 |
|---|---|---|---|
| **Financial assets** | | | |
| *Amortized cost* | | | |
| Cash and cash equivalents (1) | N/A | 560 | 329 |
| Receivables (1) | N/A | 34 | 74 |
| *Fair value through profit or loss* | | | |
| Investments | Level 1 | 371 | 367 |
| **Financial liabilities** | | | |
| *Other financial liabilities* | | | |
| Accounts payable & accrued liabilities (1) | N/A | 4,951 | 5,518 |
| Loan payable (3) | N/A | 733 | 1,633 |
| *Derivative* | | | |
| Warrant liability (2) | Level 3 | - | 8 |

(1) The carrying value of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximates fair value due to the short-term nature of these items.

(2) The Company applies a standard Black-Scholes model to value the warrant liability as described in note 16.

(3) Loans payable is presented on an amortized cost basis and will be accreted to its face amount over the term to maturity of the loan at an effective interest rate.

**Credit Risk**

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to significant concentrations of credit risk consist primarily of cash and cash equivalents. The majority of the Company's cash and cash equivalents are held through large Canadian financial institutions. Receivables are primarily due from government agencies.

**Liquidity Risk**

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure as described in note 24. The accounts payable and accrued liabilities, and income taxes payable are due within the current operating period. The Company is exposed to liquidity risk.

**Market Risk**

The Company's financial instruments include investments which are publicly traded and therefore subject to the risks related to the fluctuation in market prices of publicly traded securities. Some of these investments have been acquired as a result of property transactions and, to a large extent, represent strategic investments in related mining companies and their properties. The Company closely monitors market values to determine the most appropriate course of action.

**Price Risk**

Price risk is the risk that the trading price of the Company's shares will fluctuate and result in an increase or decrease in value of the warrant liability.

**Commodity Price Risk**

The Company is exposed to commodity price risk given that its revenues are derived from the sale of metals, the price of which have been historically volatile.

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of future cash flows from a financial instrument will fluctuate because of changes to market interest rates. The Company is exposed from time to time to interest rate risk as a result of holding fixed income cash equivalents and investments, of varying maturities and loans payable. A 1% change in market interest rates would result in no significant change in value of cash and cash equivalents or fixed income securities. The risk that the Company will realize a loss as a result of a decline in the fair value of these assets is limited as they are generally held to maturity.

**Foreign Exchange Risk**

The Company operates in Canada, Mexico and Ecuador and is exposed to foreign exchange risk arising from transactions denominated in foreign currencies.

The operating results and the financial position of the Company are reported in United States dollars. Fluctuations of the operating currencies in relation to the United States dollar will have an impact upon the reported results of the Company and may also affect the value of the Company's assets and liabilities.

The Company's financial assets and liabilities as at December 31, 2019 are denominated in United States Dollars, Canadian Dollars, and Mexican Pesos, and are set out in the following table:

| | Canadian Dollars | US Dollars | Mexico Pesos | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | $ 26 | $ 532 | $ 2 | $ 560 |
| Receivables - other | - | 4 | 30 | 34 |
| Investments | 371 | - | - | 371 |
| | 397 | 536 | 32 | 965 |
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities | (267) | (3,072) | (1,612) | (4,951) |
| Loan payable | - | (733) | - | (733) |
| Net financial (liabilities) assets | $ 130 | $ (3,269) | $ (1,580) | $ (4,719) |

The Company's financial assets and liabilities as at December 31, 2018 are denominated in United States Dollars, Canadian Dollars, and Mexican Pesos, and are set out in the following table:

| | Canadian Dollars | US Dollars | Mexico Pesos | Total |
|---|---|---|---|---|
| **Financial assets** | | | | |
| Cash and cash equivalents | $ 30 | $ 294 | $ 5 | $ 329 |
| Receivables - other | 45 | - | 29 | 74 |
| Investments | 367 | - | - | 367 |
| | 442 | 294 | 34 | 770 |
| **Financial liabilities** | | | | |
| Accounts payable and accrued liabilities | (232) | (2,525) | (2,761) | (5,518) |
| Loan payable | - | (1,633) | - | (1,633) |
| Net financial (liabilities) assets | $ 210 | $ (3,864) | $ (2,727) | $ (6,381) |

The Company's reported results will be affected by changes in the US dollar to Canadian dollar and US dollar to Mexican Pesos exchange rate. As of December 31, 2019, a 10% appreciation of the Canadian dollar relative to the US dollar would have decreased net financial assets by approximately $13 (December 31, 2018 -$21). A 10% depreciation of the US Dollar relative to the Canadian dollar would have had the equal but opposite effect. A 10% appreciation of the Mexican Pesos relative to the US dollar would have decreased net financial asset by approximately $158 (December 31, 2018 -$272) and a 10% depreciation of the Mexican Pesos would have had an equal but opposite effect. The Company has not entered into any agreements or purchased any instruments to hedge possible currency risk.

The table below summarizes the maturity profile of the Company's non-derivative financial liabilities.

| December 31, 2019 | Current – within 1 year | Non- current – 1 to 3 years |
|---|---|---|
| Accounts payable and accrued liabilities | $ 4,951 | $ - |
| Loan payable | 733 | - |
| Tax payable | 349 | - |
| | 6,033 | - |

| December 31, 2018 | Current - within 1 year | Non- current – 1 to 3 years |
|---|---|---|
| Accounts payable and accrued liabilities | $ 5,518 | $ - |
| Loan payable | 900 | 733 |
| Tax payable | 250 | - |
| | 6,668 | 733 |

The Company has recorded a gain on reversal of accounts payable of $591 (2018- $nil) relating to accounts payable that became statute barred.

## 7 Inventory

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Consumable supplies | $ 517 | $ 793 |
| Work in progress | 1,370 | 1,228 |
| Finished goods | 69 | 432 |
| | 1,956 | 2,453 |

Cost of sales represents the amount of product inventory recognized as an expense. All of the Company's inventory on hand are located at the Cerro Prieto mine in Mexico. During the year ended December 31, 2019 $202 (2018 - $171) impairment was recorded in inventory.

## 8 Investments

| | December 31, 2018 Fair value | Disposed | Gain/(Loss) | Foreign exchange | December 31, 2019 Fair value |
|---|---|---|---|---|---|
| Oroco common shares | $ 367 | $ (534) | $ 529 | $ 9 | $ 371 |
| | **December 31, 2017 Fair value** | **Disposed** | **Gain/(Loss)** | **Foreign exchange** | **December 31, 2018 Fair value** |
| Oroco common shares | $ 159 | $ - | $ 228 | $ (20) | $ 367 |

As at December 31, 2019 the Company held 1,072,000 (2018 – 2,500,000) common shares of Oroco Resource Corp. ("Oroco"). During the year ended December 31, 2019 the Company sold 1,428,000 (2018 – nil) Oroco shares for total proceeds of $534 (2018 $nil).

## 9 Property, plant and equipment

| | Cost December 31, 2017 | Additions | Write-off | December 31, 2018 | Additions | Disposals | December 31, 2019 |
|---|---|---|---|---|---|---|---|
| Plant and mining equipment | $ 9,884 | $ 368 | $ - | $ 10,252 | $ 196 | $ - | $ 10,448 |
| Machinery | 2,564 | 292 | - | 2,856 | 54 | - | 2,910 |
| Office and furniture | 251 | 8 | (10) | 249 | - | - | 249 |
| Vehicles | 1,032 | 12 | (81) | 963 | 30 | (18) | 975 |
| Lab equipment | 72 | - | - | 72 | - | - | 72 |
| | $ 13,803 | $ 680 | $ (91) | $ 14,392 | $ 280 | $ (18) | $ 14,654 |

| | December 31, 2017 | Depreciation | Write-off | December 31, 2018 | Depreciation | Disposals | December 31, 2019 |
|---|---|---|---|---|---|---|---|
| Plant and mining equipment | $ 8,140 | $ 644 | $ - | $ 8,784 | $ 531 | $ - | $ 9,315 |
| Machinery | 1,549 | 384 | - | 1,933 | 401 | - | 2,334 |
| Office and furniture | 249 | 7 | (10) | 246 | 3 | - | 249 |
| Vehicles | 815 | 63 | (78) | 800 | 67 | (18) | 849 |
| Lab equipment | 71 | 1 | - | 72 | - | - | 72 |
| | $ 10,824 | $ 1,099 | $ (88) | $ 11,835 | $ 1,002 | $ (18) | $ 12,819 |

Depreciation on property, plant and equipment for the year ended December 31, 2019 is $1,002 (2018 - $1,099) of which $836 (2018 - $846) is recorded as a cost of the mine, $3 (2018 - $7) is recorded as depreciation expense, $163 (2018 - $246) is included in inventory.

| Carrying amount | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Plant and mining equipment | $ 1,133 | $ 1,468 |
| Machinery | 576 | 923 |
| Office and furniture | - | 3 |
| Vehicles | 126 | 163 |
| | $ 1,835 | $ 2,557 |

# 10 Exploration and evaluation assets

| | El Mozo Expenditures | Batamote | Ecuador Other | Total |
|---|---|---|---|---|
| Balance December 31, 2017 | $ 1,950 | $ 320 | $ 40 | $ 2,310 |
| Acquisition costs | 100 | 856 | 30 | 986 |
| Capitalized costs | 176 | 53 | 134 | 363 |
| Depreciation | - | (1,135) | - | (1,135) |
| Balance December 31, 2018 | 2,226 | 94 | 204 | 2,524 |
| Acquisition costs | - | 165 | - | 165 |
| Capitalized costs | 125 | - | 51 | 176 |
| Impairment | (2,351) | | (255) | (2,606) |
| Depreciation | - | (259) | - | (259) |
| Balance December 31, 2019 | $ - | $ - | $ - | $ - |

## El Mozo

During fiscal 2015 the Company signed the Definitive Agreement to acquire all of the issued and outstanding shares of 0990718 B.C. Ltd. (the "Vendors"), a company holding an 80% option interest in the El Mozo project in Ecuador, in exchange for the issuance of an aggregate of 5,500,000 common shares of the Company valued at $382 to the shareholders of 0990718 pursuant to a share exchange agreement with the Vendors (the "Share Exchange Agreement"). In addition to the common shares, the Company granted to the Vendors an aggregate 1% NSR on Goldgroup's ownership portion in the El Mozo Project pursuant to an NSR agreement (the "Royalty Agreement"). Under the Royalty Agreement Goldgroup has the right to repurchase the Vendors' NSR.

**Option agreement terms**

Under the Option Agreement, 0990718 BC Ltd. could earn an 80% interest in the El Mozo Project by fulfilling the following requirements:

| Earn in % of El Mozo Project | Obligation |
|---|---|
| 15% | • Paying the Optionor $50 on or before June 13, 2016 (paid) |
| 35% | • Fulfilled obligation to earn in 15%<br>• Paying the Optionor $60 on or before June 13, 2017 (paid) |
| 55% | • Fulfilled obligation to earn in 35%<br>• Paying the Optionor $100 on or before June 13, 2018 (paid)<br>• Incurred at least $1,000 in exploration expenditures on or before June 6, 2018 (incurred) |
| 80% | • Fulfilled obligation to earn in 55%<br>• Paying the Optionor $150 on or before June 13, 2019<br>• Incurred at least $1,000 (total $2,000 accumulated) in exploration expenditures on or before June 12, 2019<br>• Issuing $500 of common shares of Goldgroup to Optionor on or before June 13, 2019. |

During the year ended December 31, 2019, the Company recognized an impairment of $2,351 and $255 on the El Mozo and another Ecuador project respectively, due to delays in obtaining the environmental permit and the political uncertainty in the Azuay province.

## Batamote

During the year ended December 31, 2017, the Company entered into an option agreement to purchase a 100% ownership in an additional exploration property in close proximity to the Cerro Prieto mine for $4,000. During the second quarter of 2018, the Company commenced extraction and operations on the project and as management determined that operating results, which includes the grade and volume of material mined, were being achieved consistently and there were indicators that these operating results would continue. The Company amortized the option payments to depreciation and depletion over the term of each option.

The option payments per the agreement are as follows:

| Date | Obligation |
|---|---|
| Upon signing | • Payment of $75 (Paid) |
| March 9, 2017 | • Payment of $37.5 (Paid) |
| April 9, 2017 | • Payment of $37.5 (Paid) |
| February 9, 2018 | • Payment of $428 (Paid) |
| August 9, 2018 | • Payment of $428 (Paid) |
| February 9, 2019 | • Payment of $428* |
| August 9, 2019 | • Payment of $428 |
| February 9, 2020 | • Payment of $428 |
| August 9, 2020 | • Payment of $428 |
| February 9, 2021 | • Payment of $428 |
| August 9, 2021 | • Payment of $428 |
| February 9, 2022 | • Payment of $428 |

* During the year ended December 31, 2019, the Company renegotiated the $428 February 9, 2019 payment to be $100 on February 9, 2019 (paid) and then 5 subsequent $65 payments until August 9, 2019, at which point the original contracted payment schedule would be followed. The February and March 2019 payments were made. The Company ceased mining from Batamote at the end of the period ended March 31, 2019 and will no longer make any option payments according to the above schedule.

# 11 Investments in associate - DynaMexico

The Company has a 50% equity interest in DynaMexico which owns 100% of an exploration project known as the San José de Gracia ("SJG") located in the state of Sinaloa, Mexico.

The other 50% equity holder of DynaMexico is DynaUSA. DynaUSA provides management and accounting services based on 2.5% of the cash expenditures incurred by DynaMexico.

As a result of the Company qualifying to earn its 50% equity interest on March 14, 2011, the board of directors of DynaMexico was to be expanded to five members with DynaUSA and the Company each appointing two members and mutually agreeing on one additional member. Currently there are only four members as the one additional member has yet to be added.

On January 22, 2013 Goldgroup announced that it had moved to dismiss as totally without merit a lawsuit filed against it and others in Dallas County District Court by DynaResource, Inc. and DynaResource de Mexico, S.A. de C.V. (collectively "DynaResource").

DynaResource alleged, among other things, that the Company has wrongfully used and disseminated confidential information and data belonging to DynaResource, and materially misrepresented Goldgroup's ownership interest in SJG. Goldgroup owns a 50% interest in DynaMexico, which owns 100% of SJG. Goldgroup has properly disclosed its interest in SJG, has not materially misrepresented it, and has not improperly used any DynaResource confidential information. Goldgroup denies all such allegations by DynaResource, has moved to dismiss the lawsuit, and intends to vigorously defend itself and its interests.

On October 28, 2013 the Company announced that it filed a legal action before the appropriate authorities in Mexico concerning recent activities undertaken by Koy Wilber Diepholz ("Diepholz"), shareholder, President and Chairman of the Board of Directors of DynaMexico and Chairman, Chief Executive Officer and Treasurer of DynaUSA. The purpose of the legal action case is to

investigate whether illegal acts were committed by Diepholz, in his role as CEO of DynaMexico, for his own benefit and for the benefit of DynaUSA.

On March 11, 2014 DynaResource dropped its lawsuit against the Company.

On March 14, 2014 the Company filed for arbitration in Denver, Colorado, against DynaResource Inc. to protect its interests pursuant to the SJG earn-in option agreement dated September 1, 2006.

On June 29, 2015 a Mazatlán Judge denied DynaMex the request for an "amparo", which is, by Mexican Law, an appeal to the injunction obtained by Goldgroup against DynaMex regarding the 300 new shares of DynaMex issued in favor of DynaUSA. The issuance of the DynaMex shares to DynaUSA diluted Goldgroup's ownership interest (from 50% to 20%) in DynaMex with DynaUSA purporting to be an owner of 80% of DynaMex.

On October 13, 2015 the Company was made aware of a news release disseminated by DynaResource de Mexico SA de C.V. ("Dyna"). Goldgroup was never notified of the purported court case discussed, does not recognize any of the claims mentioned therein and is of the belief that such claims are without merit.

During the year ended December 31, 2015, management concluded that due to the ongoing legal disputes the Company no longer has significant influence over DynaMexico and therefore discontinued treating the investment as an investment in associate.

During the year ended December 31, 2016 the Company received the favorable results and award from the conclusion of the arbitration between the Company and DynaUSA. The results and award were issued by the American Arbitration Association – International Centre for Dispute Resolution ("Arbitrator" or "ICDR") on August 24, 2016. This Award is final, binding and may be enforced in court.

**Results and Award from Arbitration**

The Arbitrator concluded that there is no doubt that DynaUSA has failed to do what they are obligated to do under an Earn-In/Option Agreement with Goldgroup, dated September 1, 2006 (the "Agreement").

The Award, in summary, clarifies several doubts arising from misleading news releases issued by DynaUSA:

The Award confirms that the Agreement is in full force and effect;

- The expenditures made by DynaUSA without the approval of the joint Management Committee have to be reimbursed to DynaResource Mexico S.A. de C.V. ("DynaMexico"), an entity in which Goldgroup owns 50% equity of, since Goldgroup did not participate in those decisions;
- A detailed accountability assessment by DynaUSA must be done for Goldgroup for the last 5 years when DynaUSA excluded Goldgroup from the management of DynaMexico and delivered to Goldgroup within 20 days of the issuance of the Award;
- The use of the Power of Attorney of Mr. K.D. Diepholz did not provide authorization for Mr. Diepholz to circumvent the Management Committee's power to approve and oversee expenditures;
- DynaUSA has acted in bad faith and breached the terms of the Agreement;
- Certain amounts must be reimbursed to Goldgroup which includes and not limited to the fees paid and to be paid in the Mexico City case related to the current dispute;
- A fifth director must be jointly appointed in DynaMexico and the names of prospective candidates exchanged by the parties, no later than 10 calendar days from the date of the Award ; and
- The deliberate dilution by DynaUSA of Goldgroup's equity interest in DynaMexico was illegal and therefore invalid.

The Company has complied with all requirements set out in the Arbitration award and has yet to receive any payment or required documentation from DynaUSA or Dyna Mexico.

On August 24, 2017, a Federal Amparo judge in the state of Veracruz, Mexico, dismissed Goldgroup Resources Inc.'s Amparo challenge. Goldgroup's position in response to the USD$48 million claim remains the same, that Goldgroup was never notified of the purported court case, and does not recognize any of the claims mentioned therein and is of the belief that such claims are entirely without merit. The Company pursued the case to the Mexican Supreme Court level to get the judgement overturned.

In February 2018, the Company received the recommendation of the magistrate judge in Denver, who has recommended that the Company's application to confirm the arbitration award be denied. The Company has filed an objection which will request the judge to reject the recommendation and confirm the arbitration award.

On May 9, 2019, the Company received a final judgment in the United States District Court for the District of Colorado confirming the Company's Results and Award from Arbitration discussed above.

Following the arbitration, DynaUSA filed documents in an attempt to convince the court to vacate the arbitration award. The May 9th order denied DynaUSA's motion to vacate the award and rejected the recommendation of a United States Magistrate Judge, who had agreed with DynaUSA that the arbitration award should be thrown out.

The court's order confirms all of the relief outlined in the August 2016 arbitration award, including DynaUSA having to: pay the Company $404 in costs and attorney fees; pay the Company $86 in separate fees and expenses; and pay DynaResource de Mexico, S.A. de C.V. ("DynaMexico")—an entity in which the Company owns a 50% equity interest—$1,045 for various legal and other expenses that DynaUSA improperly caused DynaMexico to incur.

On December 6, 2019 the 11th Federal Circuit Collegiate Court in México denied Goldgroup's Amparo regarding the USD $48 million claim and the Company will continue to pursue all legal avenues in Mexico to achieve a favorable resolution to the DynaUSA dispute.

On March 25, 2020, the United States District Court for the District of Colorado denied Dyna's motion to alter or amend the Final judgement and denied Dyna's motion for stay and judgment pending appeal and to waive or reduce supersedeas bond and ordered Dyna to post a supersedeas bond in the amount of $1,106,929.60 in order to be granted a stay, within 21 days of the order.

## 12 Mineral property

| Carrying amount | Cerro Prieto |
|---|---|
| Balance, December 31, 2017 | $ 4,509 |
| Change in estimate of reclamation obligation | (107) |
| Depletion | (499) |
| Balance, December 31, 2018 | 3,903 |
| Depletion | (885) |
| Balance, December 31, 2019 | $ 3,018 |

Cerro Prieto commenced commercial production on April 1, 2016 for accounting purposes. The project has an existing 2% NSR. In addition, there is a production royalty calculated as 20% of the difference between the market price of gold and $1,250 per ounce up to a maximum of US$90 per ounce of gold produced from the Cerro Prieto Project, of the greater of (i) the first 90,000 ounces of gold produced from the Project and (ii) all ounces of gold produced from the Cerro Prieto Project until the completion of five full years after certain criteria have been met. While the Company was temporarily processing material from Batamote (note 10) the Cerro Prieto mine was not being depleted.

## 13 Loan payable

The Company had a credit facility (the "Facility") payable to Credipresto SAPI de CV SOFM ENR ("Credipresto") that resulted from the combination of two loans during fiscal 2017. Javier Reyes, a director of the Company, is a principle of Credipresto. The Facility had the following terms:

- The maturity of the Facility and the repayment schedule of outstanding principal thereunder shall be extended by one (1) year from the original facility, such that the new maturity date shall be September 18, 2019, with repayment instalments due quarterly starting December 18, 2018.
- The interest rate applicable to all principal owing under the Facility is set at 15%.
- Upon closing, $500,000 was drawn on the Facility, and $1,000,000 of additional credit shall be made available to the Company under the Facility for the duration of the Facility term.
- The Company issued 3,500,000 warrants to the Credipresto, with the following substantive terms:
  - Each warrant is exercisable for the purchase of one common share in the capital of the Company at a price of C$0.10 per share.
  - Each warrant will expire if not exercised by July 18, 2019.

In connection with the Facility the Company incurred transaction costs of $174, which included $149 in fair value of warrants and $25 in legal costs. The transaction costs were amortized and charged to profit or loss over the term of the facility.

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Balance, January 1 | $ - | $ 1,070 |
| Loan drawdown | - | - |
| Finance cost – standby fees | - | 13 |
| Financial cost – accretion expense | - | 146 |
| Financial cost – interest expense | - | 150 |
| Repayment | - | (1,379) |
| | $ - | $ - |

During the year ended December 31, 2018, the Company closed an agreement with Accendo Banco S.A., Multiple Banking Institution (the "Accendo"), for a $1,800 secured loan facility. Javier Reyes, a director of the Company, is the CEO and Chairman of Accendo. An initial drawdown of $1,379 was used to repay the Credipresto facility and an additional $421 was drawn for working capital.

The Accendo facility has the following terms:

- Amount USD $1,800
- Term of 24 months
- Standby charge of 1.0% per annum on undrawn amounts
- Interest rate of 15% per annum
- The interest rate for overdue payments increases to 30% per annum
- Principal and interest must be repaid quarterly. (The principal is repaid in equal quarterly installments from drawdown with final payment October 2020).
- The credit amount can be requested in any increment with three days notice
- Every withdrawal will have a separate promissory note and repayment schedule
- The loan has senior security over all the assets of the Company

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Balance, January 1 | $ 1,633 | $ - |
| Loan withdrawal | - | 1,800 |
| Interest expense | 190 | 69 |
| Interest paid | (190) | (63) |
| Repayment | (900) | (173) |
| | $ 733 | $ 1,633 |
| Amount classified as short-term | - | 900 |
| Long-term portion | $ 733 | $ 733 |

# 14 Decommissioning obligation

The Company's estimates of future decommissioning and restoration for reclamation and closure costs for its mines are based on reclamation standards that meet Mexican regulatory requirements. Elements of uncertainty in estimating these amounts include potential changes in regulatory requirements, reclamation plans and cost estimates, discount rates and timing of expected expenditures.

The undiscounted amount of estimated cash flows required to settle the decommissioning and reclamation costs is estimated at $1,381 (2018 - $1,381). The key assumptions on which this estimate was based on are:

(i) Cerro Prieto's expenditure's present value is $1,318 (2018 - $1,258), reflecting anticipated cash flows to be incurred over approximately the next 4 years. The Company recorded accretion of $60 (2018 - $16) included in finance cost (note 20) on the statement of loss and comprehensive income (loss) for the year ended December 31, 2019. As at December 31, 2019 the discounted cash flows are calculated using an inflation rate of 3.72% (2018 – 3.72%) and a risk-free rate of 8.50% (2018 – 8.50%).

The discounted liability for the decommissioning and restoration provision is as follows:

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Balance, beginning of year | $ 1,258 | $ 1,349 |
| Addition – Change in estimate | - | (107) |
| Settlement of decommissioning liability | - | - |
| Accretion expense | 60 | 16 |
| | $ 1,318 | $ 1,258 |

The Company estimated the decommissioning and restoration provision for Batamote as $313 (2018 - $313) and recorded this amount through cost of operations as depletion.

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Balance, beginning of year | $ 313 | $ - |
| Decommissioning obligation expense | - | 313 |
| Classified as current liability | $ 313 | $ 313 |

## 15 Right of use asset and lease liability

| **Right of use asset - equipment** | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Opening balance | $ - | $ - |
| Recognized on adoption of IFRS 16 | 267 | - |
| Less: depreciation | (134) | - |
| | $ 133 | $ - |

| **Right of use asset - office** | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Opening balance | $ - | $ - |
| Recognized on adoption of IFRS 16 | 305 | - |
| Less: depreciation | (119) | - |
| | $ 186 | $ - |
| Total right of use assets | $ 319 | $ - |

| **Lease liability** | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Lease liabilities | $ 342 | $ - |
| Less: current portion | (300) | - |
| Classified as long-term liability | $ 42 | $ - |

| **Undiscounted lease payments** | **December 31, 2019** | **December 31, 2018** |
|---|---|---|
| Not later than a year | $ 300 | $ - |
| Later than a year | 80 | - |
| | $ 380 | $ - |

The Company's leases relate to office and equipment leases. Interest expense on the lease liabilities for the period ended December 31, 2019 is $70 (2018 - $nil). Depreciation of right-to-use assets is calculated using the straight-line method over the remaining lease term. Depreciation of equipment leases is recorded in cost of sales. During the year ended December 31, 2019, the Company incurred $1,698 for leases with variable lease payments not included in lease liabilities. The variable lease payments relate to certain equipment with consideration based on usage. During the year ended December 31, 2019, the Company received $67 from subleasing office space.

# 16 Warrant liability

| | Number of warrants | Weighted average exercise price (C$) | Warrant liability (US$) |
|---|---|---|---|
| Balance, December 31, 2017 | 6,500,000 | $ 0.10 | $ 67 |
| Change in fair value | - | - | (59) |
| Balance, December 31, 2018 | 6,500,000 | 0.10 | 8 |
| Warrants expired | (6,500,000) | 0.10 | - |
| Change in fair value | - | - | (8) |
| Balance, December 31, 2019 | 6,500,000 | $ 0.10 | $ - |

The fair value allocated to the warrants at December 31, 2019 was $nil (December 31, 2018 - $8) and was recorded as a derivative financial liability as these warrants were exercisable in Canadian dollars, differing from the Company's functional currency. The unrealized gain recognized in profit or loss for the year ended December 31, 2019 was $8 (2018 gain of $59).

The fair value of the warrants was calculated using the Black-Scholes Option Pricing Model. Option pricing models require the input of highly speculative assumptions, including the expected future price volatility of a Company's shares. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company's warrants.

| | December 31, 2019 | December 31, 2018 |
|---|---|---|
| Expected warrant life | N/A | 0.39 years |
| Expected stock price volatility | N/A | 76% |
| Dividend payment during life of warrant | N/A | Nil |
| Expected forfeiture rate | N/A | Nil |
| Risk free interest rate | N/A | 2.19% |
| Weighted average strike price | N/A | $ 0.10 |
| Weighted average fair value per warrant | N/A | $ 0.01 |
| Weighted average share price | N/A | $ 0.05 |

# 17 Share Capital

**(i) Share Capital**

The Company's authorized share capital consists of an unlimited number of common shares without par value.

**(ii) Share based compensation**

The Company has adopted a share option plan for which options to acquire up to 10% of the issued share capital, at the award date, may be granted to eligible optionees from time to time. Generally, share options granted have a maximum term of five years, and a vesting period and exercise price determined by the directors. The exercise price may not be less than the closing quoted price of the Company's common shares traded through the facilities of the exchange on which the Company's common shares are listed. As at December 31, 2019, the remaining share options available for issue under the plan were 3,058,669 (December 31, 2018 – 3,058,669).

Total share options granted during the year ended December 31, 2019 was nil (2018 – 2,740,000). Total share-based compensation expense recognized for the fair value of share options granted and vested during the year ended December 31, 2019 was $6 (2018 - $78).

| | December 31, 2019 | | December 31, 2018 | |
|---|---|---|---|---|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Outstanding - beginning of year | 15,455,000 | $ 0.16 | 16,125,000 | $ 0.17 |
| Granted | - | - | 2,740,000 | 0.07 |
| Expired/forfeited | - | - | (3,410,000) | 0.13 |
| Outstanding - end of year | 15,455,000 | $ 0.16 | 15,455,000 | $ 0.16 |

The following table discloses the number of options and vested options outstanding as at December 31, 2019:

| | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| Exercise price (C$/option) | Options outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price (C$/option) | Options outstanding and exercisable | Weighted average remaining contractual life (years) | Weighted average exercise price (C$/option) |
| $0.06 to $0.15* | 9,635,000 | 1.25 | $ 0.09 | 9,635,000 | 1.25 | $ 0.09 |
| $0.16 to $0.27 | 5,820,000 | 1.82 | 0.27 | 5,820,000 | 1.82 | 0.27 |
| Outstanding - end of year | 15,455,000 | 1.47 | $ 0.16 | 15,455,000 | 1.47 | $ 0.16 |

The following table discloses the number of options and vested options outstanding as at December 31, 2018:

| | Options Outstanding | | | Options Exercisable | | |
|---|---|---|---|---|---|---|
| Exercise price (C$/option) | Options outstanding | Weighted average remaining contractual life (years) | Weighted average exercise price (C$/option) | Options outstanding and exercisable | Weighted average remaining contractual life (years) | Weighted average exercise price (C$/option) |
| $0.06 to $0.15* | 9,635,000 | 2.25 | $ 0.09 | 8,275,000 | 1.96 | $ 0.10 |
| $0.16 to $0.27 | 5,820,000 | 2.82 | 0.27 | 5,820,000 | 2.82 | 0.27 |
| Outstanding - end of year | 15,455,000 | 2.47 | $ 0.16 | 14,095,000 | 2.32 | $ 0.16 |

*Subsequent to December 31, 2019, 3,300,000 options exercised unexercised.

# 18 Related party transactions

The Company's related parties include its subsidiaries, associates over which it exercises significant influence, and key management personnel. Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Key management personnel include officers, directors or companies with common directors of the Company. The remuneration of the Company's directors and other key management personnel during the year ended December 31, 2019 and 2018, are as follows:

| | 2019 | 2018 |
|---|---|---|
| Short-term employee benefits included in salary and consulting | $ 275 | $ 289 |
| Director's fees included in professional fess | 111 | 116 |
| Share-based compensation | 4 | 58 |
| Consulting fees included in salary and consulting | 108 | 108 |
| | $ 498 | $ 571 |

Short-term employee benefits include salaries incurred within the last twelve months of the statement of financial position date and other annual employee benefits. They are included in cost of sales, administrative expenses and exploration and evaluation properties.

At December 31, 2019, other receivables and prepaid expenses include $nil (December 31, 2018 - $21) owing from an officer of the Company.

At December 31, 2019, accounts payable and accrued liabilities includes $294 (December 31, 2018 - $173) owing to a director and/or officer and/or companies controlled by the directors.

During the year ended December 31, 2019 the Company paid consulting fees totalling $108 (2018 - $108) to companies controlled by directors and/or officers of the Company.

Amounts owing to or from related parties are non-interest bearing, unsecured and due on demand.

## 19 Cost of sales

| | For year ended December 31, | | | |
|---|---|---|---|---|
| | | 2019 | | 2018 |
| Mining | $ | 6,978 | $ | 7,529 |
| Crushing | | 2,498 | | 2,168 |
| Plant and Laboratory | | 2,820 | | 3,638 |
| Mine administration | | 1,426 | | 1,278 |
| Machine maintenance | | 1,459 | | 1,696 |
| Royalty | | 494 | | 158 |
| Change in inventory | | -30 | | 176 |
| Impairment of inventory | | 202 | | 171 |
| Other | | 176 | | 325 |
| | $ | 16,023 | $ | 17,139 |

## 20 Finance cost

| | | For year ended December 31, | | | |
|---|---|---|---|---|---|
| | Note | | 2019 | | 2018 |
| Accretion - facility | 13 | $ | - | $ | 146 |
| Standby fees – amended loan | 13 | | - | | 13 |
| Interest expense – facility | | | - | | 150 |
| Accretion – decommissioning liability | 14 | | 60 | | 16 |
| Interest expense – Accendo Loan | 13 | | 190 | | 69 |
| Interest on lease liabilities | | | 70 | | - |
| Other finance cost | | | 4 | | 5 |
| | | $ | 324 | $ | 399 |

## 21 Income tax

| | For the year ended | |
|---|---|---|
| | December 31, 2019 | December 31, 2018 |
| Current income tax expense | $ 450 | $ 428 |
| Deferred income tax (recovery) expense | - | (326) |
| | $ 450 | $ 102 |

The tax effects of temporary differences between amounts recorded in the Company's accounts and the corresponding amounts as computed for income tax purposes give rise to deferred tax assets (liabilities) as follows:

| December 31, 2019 | Canada | Mexico | Total |
|---|---|---|---|
| Tax loss carry-forwards | $ - | $ 688 | $ 688 |
| Mineral property | - | (472) | (472) |
| Property, plant and equipment | - | (208) | (208) |
| Royalty deduction | - | 220 | 220 |
| Other | - | (228) | (228) |
| Deferred tax liability | $ - | $ - | $ - |

| December 31, 2018 | Canada | Mexico | Total |
|---|---|---|---|
| Tax loss carry-forwards | $ - | $ 602 | $ 602 |
| Mineral property | - | (446) | (446) |
| Property, plant and equipment | - | (156) | (156) |
| Royalty deduction | - | 229 | 229 |
| Other | - | (229) | (229) |
| Deferred tax liability | $ - | $ - | $ - |

At December 31, 2019, no deferred tax assets are recognized on the following temporary differences or it is not probable that sufficient future taxable profit will be available to realize such assets:

| December 31, 2019 | Canada | Mexico | Total |
|---|---|---|---|
| Tax loss carry-forwards | $ 7,267 | $ 2,297 | $ 9,564 |
| Investment | 1,897 | - | 1,897 |
| Capital losses | 1,061 | - | 1,061 |
| Mineral property | - | 2,036 | 2,036 |
| Property, plant and equipment | 358 | 520 | 878 |
| Share issuance costs | 35 | - | 35 |
| Decommissioning obligation | - | 489 | 489 |
| Royalty deduction | - | 127 | 127 |
| Other | 184 | 537 | 721 |
| Unrecognized deferred tax assets | $ 10,802 | $ 6,006 | $ 16,808 |

| December 31, 2018 | Canada | Mexico | Total |
|---|---|---|---|
| Tax loss carry-forwards | $ 6,544 | $ 1,963 | $ 8,507 |
| Investment | 1,811 | - | 1,811 |
| Capital losses | 1,055 | - | 1,055 |
| Mineral property | - | 2,205 | 2,205 |
| Property, plant and equipment | 527 | 325 | 852 |
| Share issuance costs | 66 | - | 66 |
| Decommissioning obligation | - | 471 | 471 |
| Other | 189 | 459 | 648 |
| Unrecognized deferred tax assets | $ 10,192 | $ 5,423 | $ 15,615 |

The Company has non-capital losses of approximately $26,900 (2018 - $24,200) to reduce future income tax payable in Canada which expire between the years 2025 and 2038.

In Mexico, the Company has losses of approximately $9,900 (2018 - $8,500) to reduce income tax in Mexico which expire between 2021 and 2026.

The provision for income tax differs from the amount calculated using Canadian federal and provincial statutory income tax rate of 27% (2018 – 27%) as follows:

| | Year ended December 31, | |
|---|---|---|
| | 2019 | 2018 |
| Expected income tax recovery | $ (922) | $ (843) |
| Non-deductible items | 108 | 418 |
| Tax rate differences | (88) | (125) |
| Foreign exchange | (90) | 322 |
| Royalty deduction | 209 | 161 |
| Other | 36 | (482) |
| Deferred tax assets not recognized | 1,197 | 651 |
| Income tax expense | $ 450 | $ 102 |

# 22 Segmented disclosure

The Company operates in three geographical and three operating segments. The operating segments are managed separately based on the nature of operations. Mining operations consists of the Batamote project which ceased operations on March 31, 2019, and the Cerro Prieto project currently operational and exploration and evaluation the El Mozo project, which was abandoned during the year ended December 31, 2019.

All of the Company's revenue is generated in Mexico. Other selected financial information by geographical segment is as follows:

| | As at December 31, 2019 | | | | As at December 31, 2018 | | | |
|---|---|---|---|---|---|---|---|---|
| | Canada | Mexico | Ecuador | Total | Canada | Mexico | Ecuador | Total |
| **Assets** | | | | | | | | |
| Cash and cash equivalents | $ 129 | $ 431 | $ - | **$ 560** | $ 143 | $ 182 | $ 4 | **$ 329** |
| Investments | 371 | - | - | **371** | 367 | - | - | **367** |
| Other receivables and prepaid expenses | 194 | 1,429 | - | **1,623** | 140 | 2,120 | 126 | **2,386** |
| Inventory | - | 1,956 | - | **1,956** | - | 2,453 | - | **2,453** |
| Right of use asset | 165 | 154 | | **319** | - | - | - | - |
| Property, plant and equipment | - | 1,835 | - | **1,835** | - | 2,557 | - | **2,557** |
| Exploration and evaluation properties | - | - | - | - | - | 94 | 2,430 | **2,524** |
| Mineral property | - | 3,018 | - | **3,018** | - | 3,903 | - | **3,903** |
| **Liabilities** | | | | | | | | |
| Accounts payable and accrued liabilities | (1,007) | (3,944) | - | **(4,951)** | (496) | (4,856) | (166) | **(5,518)** |
| Tax payable | - | (349) | - | **(349)** | - | (250) | - | **(250)** |
| Loan payable | - | (733) | - | **(733)** | - | (1,633) | - | **(1,633)** |
| Warrant liability | - | - | - | - | (8) | - | - | **(8)** |
| Lease liability | (177) | (165) | - | **(342)** | - | - | - | - |
| Deferred tax liability | - | - | - | - | - | - | - | - |
| Decommissioning obligation | - | (1,631) | - | **(1,631)** | - | (1,571) | - | **(1,571)** |

Selected financial information by operating segments is as follows:

| | As at December 31, 2019 | | | As at December 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Production | Corporate | Total | Exploration & Production | Corporate | Total |
| **Assets** | | | | | | |
| Cash and cash equivalents | $ 431 | $ 129 | **$ 560** | $ 186 | $ 143 | **$ 329** |
| Investments | - | 371 | **371** | - | 367 | **367** |
| Other receivables and prepaid expenses | 1,429 | 194 | **1,623** | 2,246 | 140 | **2,386** |
| Inventory | 1,956 | - | **1,956** | 2,453 | - | **2,453** |
| Right of use asset | 154 | 165 | **319** | | | |
| Property, plant and equipment | 1,835 | - | **1,835** | 2,557 | - | **2,557** |

| | | | | | | |
|---|---|---|---|---|---|---|
| Exploration and evaluation properties | - | - | **-** | 2,524 | - | **2,524** |
| Mineral property | 3,018 | - | **3,018** | 3,903 | - | **3,903** |
| **Total assets** | $ 8,823 | $ 859 | **$ 9,682** | $ 13,869 | $ 650 | **$ 14,519** |

For the year ended December 31, 2019

| | Corporate | Cerro Prieto | Batamote | El Mozo | Total |
|---|---|---|---|---|---|
| Revenue | - | 12,983 | 6,386 | - | 19,369 |
| (Loss) income before income taxes | (1,914) | 709 | 424 | (2,638) | (3,419) |

For the year ended December 31, 2018

| | Corporate | Cerro Prieto | Batamote | El Mozo | Total |
|---|---|---|---|---|---|
| Revenue | - | 8,803 | 12,290 | - | 21,093 |
| (Loss) income before income taxes | (1,794) | 238 | (1,539) | (27) | (3,122) |

# 23 Commitments

a. In 2011, the Company acquired the Caballo Blanco project held previously by Almaden Minerals Ltd. ("Almaden"). As part of the consideration, the Company may have to issue up to an additional 7.0 million common shares of the Company upon achievement of certain project milestones. As a result, the Company recorded a contingent share consideration of $3,305 (December 31, 2018 - $3,305). Subsequent to the sale of Caballo Blanco to Timmins Gold in fiscal 2014, the terms of these contingent shares remained unchanged. Pursuant to a plan of arrangement the right to receive shares has been transferred to Almadex Minerals Limited.

b. The Company was entitled to receive an additional contingent consideration from the 2014 Caballo Blanco sale of $5.0 million ("Contingent Gain") that would become payable in cash, Timmins Gold shares, or a combination thereof (at the option of Timmins Gold, provided that the Company's ownership in Timmins Gold will not exceed 9.9% at any time) should any of the following events occur prior to October 31, 2019:

- The approval of the Project's Environmental Impact Statement from SEMARNAT ("Environmental Permit"); or
- A change in beneficial ownership of Timmins Gold of greater than 50%; or
- The removal or change, at one time, of a majority of the current members of the Timmins Gold Board of Directors

During the year ended December 31, 2016, the Company sold the contingent receivable to Credipresto for cash consideration of $1,900, which was paid upon execution and the proceeds were used to pay back the principal of the Facility and recognizing a gain on sale of $1,900. An additional $600 will be contingently payable to the Company by Credipresto when the owner of Caballo Blanco receives the Environmental Permit. Although the Company may become entitled to the contingent payments, the value of these payments has not been recognized in the statement of financial position as at December 31, 2019 due to the level of uncertainty surrounding the conditions required for the payments.

# 24 Capital management

The capital of the Company consists of items included in shareholder's equity. The Company's objectives for capital management are to safeguard its ability to support the Company's normal operating requirement on an ongoing basis, continue the operations, development and exploration of its mineral properties and support any expansionary plans.

The Company manages its capital structure and makes adjustments in light of changes in its economic environment and the risk characteristics of the Company's assets. To effectively manage the entity's capital requirements, the Company has in place a planning, budgeting and forecasting process to help determine the funds required to ensure the Company has the appropriate liquidity to meet its operating and growth objectives. As at December 31, 2019, the Company expects its capital resources will require additional financial support for its normal operating requirements, planned development and exploration of its mineral properties for the next twelve months. There are no externally imposed capital requirements to which the Company has not complied.

# 25 Supplemental cash flow information

| Supplemental cash flow information | Notes | 2019 | 2018 |
|---|---|---|---|
| Depreciation and depletion included in inventory | 9 | $ (163) | $ (246) |
| Exploration expenditures accrued | | - | 166 |
| Decommissioning obligation – change in estimate | 17 | - | (107) |
| Recognition of right of use asset and liability | 2 | 572 | - |

| | | | |
|---|---|---|---|
| **Cash and cash equivalents consists of:** | | | |
| Cash | | 534 | 304 |
| Cash equivalents | | 26 | 25 |
| **Cash and cash equivalents – end of year** | | $ 560 | $ 329 |

# 26 Bad debt expense

On November 2, 2018, the Company was made aware that Republic Metals Corporation, the Company's refiner, filed for Chapter 11 bankruptcy protection. For the year ending December 31, 2018, the Company provided for $928 in receivables and is currently proceeding through the bankruptcy court. During the year ended December 31, 2019, the Company recorded a reversal of $100 related to bad debt expenses.