# SCOZINC MINING LTD.

## CONSOLIDATED FINANCIAL STATEMENTS

## FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

**(PRESENTED IN CANADIAN DOLLARS)**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Scozinc Mining Ltd. ("the Company") were prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Management acknowledges responsibility for the preparation and presentation of the annual consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, financial performance and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

| | |
|---|---|
| *"Mark Haywood"* | *"Robert D.B.Suttie"* |
| **Chief Executive Officer** | **Chief Financial Officer** |

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

# INDEPENDENT AUDITORS' REPORT

To the Shareholders of ScoZinc Mining Ltd.

## *Opinion*

We have audited the consolidated financial statements of ScoZinc Mining Ltd. (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2019 and December 31, 2018;
- 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 statements, including a summary of significant accounting policies

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

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

## *Basis for Opinion*

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

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

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

## *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 in the financial statements which indicates that the Entity has incurred a net loss for the year, has an accumulated deficit at December 31, 2019 and will be required to raise additional financing in order to meet its planned business objectives.

As stated in Note 1 in the financial statements, these events or conditions, along with other matters set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Entity'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. Other information comprises the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represents the underlying transactions and events in a manner that achieves fair presentation.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is Robert Ryan Owsnett, CPA, CA.

Vancouver, Canada
June 15, 2020

# ScoZinc Mining Ltd.
## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## (PRESENTED IN CANADIAN DOLLARS)

| As at December 31, | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash | $ 519,138 | $ 279,305 |
| Amounts receivable and prepaid expenses (Note 6) | 85,855 | 149,448 |
| | 604,993 | 428,753 |
| Cash held for reclamation (Note 4) | 3,163,616 | 3,100,852 |
| Property, plant and equipment (Note 5) | 7,934,074 | 8,084,509 |
| Exploration and evaluation assets (Note 7) | 7,252,535 | 7,034,767 |
| Right-of-use asset (Note 8) | 85,425 | - |
| | 18,435,650 | 18,220,128 |
| | $ 19,040,643 | $ 18,648,881 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities (Note 10) | $ 339,124 | $ 449,897 |
| Amounts payable to related parties (Note 16) | 52,768 | 279,269 |
| Lease obligation - current portion (Note 9) | 14,545 | - |
| | 406,437 | 729,166 |
| Lease obligation - long term portion (Note 9) | 67,420 | - |
| Decommissioning liability (Note 11) | 2,600,000 | 2,600,000 |
| | 3,073,857 | 3,329,166 |
| **EQUITY** | | |
| Share capital (Note 12) | 82,642,357 | 81,358,592 |
| Warrants (Note 13(b)) | 1,021,145 | 318,006 |
| Contributed surplus | 711,192 | 558,065 |
| Deficit | (68,407,908) | (66,914,948) |
| | 15,966,786 | 15,319,715 |
| | $ 19,040,643 | $ 18,648,881 |

**Nature of Operations and Going Concern** (Note 1)
**Contingencies** (Note 14)
**Subsequent Events** (Note 20)

**Approved on Behalf of the Board:**

*"Victor Lazarovici"* — **Director**

*"Chris Hopkins"* — **Director**

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

## ScoZinc Mining Ltd.
**CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**
**(PRESENTED IN CANADIAN DOLLARS)**

| For the Years Ended December 31, | 2019 | 2018 |
|---|---|---|
| **EXPENSES** | | |
| Salaries and benefits | **$ 525,858** | $ 442,562 |
| Office and general | **274,490** | 293,089 |
| Legal and accounting fees | **173,378** | 207,297 |
| Investor relations | **53,995** | 24,929 |
| Amortization (Notes 5 and 8) | **178,790** | 166,634 |
| Consulting | **173,839** | 413,479 |
| Share-based payments (Note 13(a)) | **153,127** | 67,795 |
| Regulatory fees | **34,850** | 30,522 |
| **Net loss before interest and other items:** | **(1,568,327)** | (1,646,307) |
| Interest income | **75,432** | 22,023 |
| Gain (Loss) on settlement of liabilities (Notes 10, 12(v) and (vi)) | **(65)** | - |
| **NET LOSS AND COMPREHENSIVE LOSS FOR THE YEAR** | **$ (1,492,960)** | $ (1,624,284) |
| **Basic and diluted loss per share** (Note 15) | **$ (0.20)** | $ (0.35) |
| **Weighted average number of common shares outstanding - basic and diluted** | **7,320,651** | 4,702,209 |

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

## ScoZinc Mining Ltd.

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**(PRESENTED IN CANADIAN DOLLARS, EXCEPT SHARE AMOUNTS)**

| | Number of Shares | Amount | Warrants | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|---|
| Balance, December 31, 2017 | 3,941,045 | $ 80,251,853 | $ - | $ 490,270 | $(65,290,664) | $ 15,451,459 |
| Issued on private placement, net of costs | 1,324,999 | 1,424,745 | - | - | - | 1,424,745 |
| Warrants issued on private placement | - | (318,006) | 318,006 | - | - | - |
| Stock-based compensation | - | - | - | 67,795 | - | 67,795 |
| Loss for the year | - | - | - | - | (1,624,284) | (1,624,284) |
| **Balance, December 31, 2018** | **5,266,044** | **81,358,592** | **318,006** | **558,065** | **(66,914,948)** | **15,319,715** |
| Issued on private placements, net of costs | 4,350,000 | 1,776,435 | - | - | - | 1,776,435 |
| Warrants issued on private placement | - | (698,455) | 698,455 | - | - | - |
| Broker warrants issued on private placement | - | (4,684) | 4,684 | - | - | - |
| Issued on settlement of debt | 485,416 | 210,469 | - | - | - | 210,469 |
| Stock-based compensation | - | - | - | 153,127 | - | 153,127 |
| Loss for the period | - | - | - | - | (1,492,960) | (1,492,960) |
| **Balance, December 31, 2019** | **10,101,460** | **$ 82,642,357** | **$ 1,021,145** | **$ 711,192** | **$(68,407,908)** | **$ 15,966,786** |

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

# ScoZinc Mining Ltd.
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## (PRESENTED IN CANADIAN DOLLARS)

| For the Years Ended December 31, | 2019 | 2018 |
|---|---|---|
| **CASH (USED IN) PROVIDED BY:** | | |
| **OPERATING ACTIVITIES** | | |
| Net loss for the year: | **$ (1,492,960)** | $ (1,624,284) |
| Amortization | **178,790** | 166,634 |
| Share-based payments | **153,127** | 67,795 |
| Loss on settlement of liabilities | **65** | - |
| Accretion of lease liability | **2,185** | - |
| Accrued interest income | **(75,432)** | (22,023) |
| | **(1,234,225)** | (1,411,878) |
| Net change in non-cash working capital: | | |
| Amounts receivable and prepaid expenses | **63,593** | (78,165) |
| Accounts payable and accrued liabilities | **(43,869)** | 349,355 |
| Amounts payable to related parties | **(83,001)** | 221,577 |
| | **(1,297,502)** | (919,111) |
| Interest received | **12,668** | 4,911 |
| | **(1,284,834)** | (914,200) |
| **INVESTING ACTIVITIES** | | |
| Exploration and evaluation assets | **(217,768)** | (949,772) |
| Acquisition of property, plant and equipment | **(18,000)** | (334,211) |
| | **(235,768)** | (1,283,983) |
| **FINANCING ACTIVITIES** | | |
| Lease payments | **(16,000)** | - |
| Share capital issued for cash | **1,850,000** | 1,457,500 |
| Share issue costs | **(73,565)** | (32,755) |
| | **1,760,435** | 1,424,745 |
| **CHANGE IN CASH** | **239,833** | (773,438) |
| **CASH, BEGINNING OF YEAR** | **279,305** | 1,052,743 |
| **CASH, END OF YEAR** | **$ 519,138** | $ 279,305 |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Scozinc Mining Ltd. (the "Company" or "ScoZinc"), and its wholly owned subsidiary Scozinc Limited (collectively, the "Group") is engaged in base metals mining and related activities, including the exploration and evaluation of mineral property interests that are considered to have the potential for economic mineralization and development. The Company is a public company, which is listed on the TSX Venture Exchange and incorporated and domiciled in Canada. The address of its registered office is Purdy's Wharf, 1959 Upper Water Street, Suite 1301, Nova Scotia, B3J 3N2.

The consolidated financial statements have been prepared on a going concern basis, which assumes the Group will continue in operation through the fiscal year and into the foreseeable future and will be able to realize assets and discharge its liabilities and commitments in the normal course of operations at the amounts stated in the consolidated financial statements.

The Company has not generated revenue from operations. The Company has incurred a net loss of $ 1,492,960 for the year ended December 31, 2019 (2018 - $1,624,284), and as of that date has an accumulated deficit of $68,407,908 (2018 - $66,914,948). As at December 31, 2019, cash amounted to $ 519,138 (2018 - $279,305) and the Company had working capital of $ 198,556 (2018 - working capital deficiency of $300,413). The ability of the Company to carry out its planned business objectives is dependent on its ability to raise adequate financing from lenders, shareholders and other investors and/or generate operating profitability and positive cash flow. There can be no assurances that the Company will continue to obtain the additional financial resources necessary and/or achieve profitability or positive cash flows. If the Company is unable to obtain adequate financing, the Company will be required to curtail operations, and development activities and there would be significant uncertainty whether the Company would continue as a going concern and realize its assets and settle its liabilities and commitments in the normal course of business.

At December 31, 2019, the Company did not have sufficient cash on hand to meet all planned exploration, development, general expenses and property payments for the next twelve months. The Company plans to raise additional capital to further develop and explore its project, however the Company may increase or decrease expenditures as necessary to adjust to a changing capital market environment. See Note 14, Contingencies and Note 20, Subsequent Events, for a discussion of the impact of Covid 19 on the Company and its going concern assessment, and for a summary of capital raised subsequent to year end.

The above factors indicate the existence of material uncertainties that may cast significant doubt on the ability of the Company to continue as a going concern.

The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. If management is unsuccessful in securing capital, the Company's assets may not be realized or its liabilities discharged at their carrying amounts and these differences could be material.

## 2. BASIS OF PRESENTATION

### Statement of Compliance

These consolidated financial statements of the Company, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on June 15, 2020.

### Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for exploration and evaluation assets and property, plant and equipment relating to the ScoZinc Project which have been written down in prior years to the estimated recoverable amount.

### Functional and Presentation Currency

The consolidated financial statements are presented in Canadian Dollars, which is the functional and presentation currency of the Company and its subsidiary.

## 2. BASIS OF PRESENTATION (Continued)

### Use of Estimates and Judgments

The preparation of the consolidated financial statements requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and the disclosure of any contingent assets and liabilities as at the date of the financial statements, as well as the reported expenses incurred during the year. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following:

- going concern assessment (Note 1)
- impairment of exploration and evaluation assets, and property, plant and equipment (Note 3)
- Impact of Covid 19 pandemic (Notes 14 and 20)

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following:

– decommissioning liabilities (Notes 3 and 11)
– recoverability of exploration and evaluation assets, and property, plant and equipment (Note 3)
– determination of the fair value of stock options and warrants (Notes 3, 12 and 13)

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies of the Company include the following and have been applied consistently to all periods presented.

### Basis of Consolidation

These consolidated financial statements include the accounts of the Company, and its active subsidiary. All significant intercompany transactions are eliminated on consolidation.

(i) Business Combinations

A business combination is a transaction or other event in which control over one or more businesses is obtained. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits.

Business acquisitions are accounted for using the acquisition method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition with the excess of the purchase consideration over such fair value being recorded as goodwill and allocated to cash generating units. If the fair value of the net assets acquired exceeds the purchase consideration, the difference is recognized immediately as a gain in the consolidated statement of comprehensive income (loss). Acquisition related costs are expensed during the period in which they are incurred. If the assets acquired are not a business, the transaction is accounted for as an asset acquisition.

(ii) Subsidiary

A subsidiary is an entity controlled by the Company. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of a subsidiary are included in the consolidated financial statements from the date that control commences until the date that control ceases.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Foreign Currency Transactions

Transactions in foreign currency are translated to the respective functional currencies of Company entities at the exchange rate in effect at the transaction date. Monetary assets and liabilities denominated in other than the functional currency are translated at the exchange rate in effect at the date of the statements of financial position. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortized cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction

### Financial Instruments

#### (i) Non-Derivative Financial Assets

The Company initially recognizes loans and receivables on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in such transferred financial assets that is created or retained by the Company is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company classifies its financial assets in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income ("FVTOCI") or at amortized cost. The classification depends on the purpose for which the financial assets were acquired. Management determined the classification of its financial assets on initial recognition. Measurement and classification of its financial assets is dependent on the business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

*Financial Assets at Fair Value Through Profit or Loss*

A financial asset is classified at FVTPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company’s risk management or investment strategy. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in profit and loss as incurred. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in profit and loss in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges. At December 31, 2019 and 2018, the Company had no financial instruments classified as FVTPL.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial Instruments (Continued)

#### (i) Non-Derivative Financial Assets (Continued)

*Financial Assets at FVTOCI*

Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. At December 31, 2019 and 2018, the Company had no financial instruments classified as FVTOCI.

*Financial Assets at Amortized Cost*

Financial assets at amortized cost are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. They are classified as current assets or non-current assets based on their maturity date. Financial assets at amortized cost are comprised of cash and cash equivalents, amounts receivable, and cash held for reclamation.

*Cash and Cash Equivalents*

Cash and cash equivalents include cash held at a major financial institution and invested in accounts which are available on demand by the Company. Cash equivalents are highly liquid instruments with a maturity date of three months or less after the purchase date. Cash and cash equivalents are stated at cost, which approximates fair value.

#### (ii) Non-Derivative Financial Liabilities

Financial liabilities are recognized initially on the trade date, which is the date the Group becomes a party to the contractual provisions of the instrument. Such financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company classifies non-derivative financial liabilities into the other financial liabilities category.

The Company's amortized cost financial liabilities comprise amounts payable to related parties and accounts payable and accrued liabilities.

#### (iii) Share Capital

*Common Shares*

Common shares are classified as equity. Common shares or securities issued for non-monetary consideration are recorded at their fair market value, based on the trading price of the common shares. Incremental costs directly attributable to the issue of common shares and the fair value of warrants issued in connection with the issuance of common shares are recognized as a deduction from share capital, net of any tax effects.

*Warrants*

Warrants for the purchase of the Company's common shares are classified as equity and are recorded at their fair value as determined using a Black-Scholes valuation model. Warrant consideration issued for assets acquired or expenses incurred is measured at fair value and recorded in contributed surplus. Consideration received on exercise of warrants is recorded as share capital and the value initially recognized for the warrants is transferred to share capital.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Financial Instruments (Continued)

#### (iii) Share Capital (Continued)

*Flow-Through Shares*

Under the Canadian Income Tax Act, an enterprise may issue securities referred to as flow-through shares, whereby the investor may claim the tax deductions arising from qualifying expenditures that the Company made with the proceeds. The increase to share capital when flow-through shares are issued is measured based on the current market price of common shares. The incremental proceeds, or "premium," are recorded as a deferred credit. When expenditures are renounced, a deferred tax liability is recognized and the deferred credit is reversed. The net amount is recognized as a deferred income tax recovery.

### Exploration and Evaluation Assets

The cost of acquiring mineral properties and related exploration and evaluation expenditures are capitalized until the properties are placed into production, sold or abandoned. These capitalized costs will be amortized over the estimated useful life of the properties following the commencement of production or written off if the properties are sold, allowed to lapse or abandoned. Costs incurred prior to obtaining the right to explore are expensed as incurred.

Cost includes any cash consideration and advance royalties paid and the fair market value of shares issued on the acquisition of property interests. Costs also include, but are not exclusive to, acquisition of rights to explore, topographical, geological, geochemical and geophysical studies, exploratory drilling, trenching and sampling as well as depreciation related to exploration field equipment and employee compensation costs attributed to exploration activities. Properties acquired under option agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. The recorded amounts of property acquisition costs and their related deferred exploration costs represent actual expenditures incurred and are not intended to reflect present or future values.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of a mineral property interest may exceed its recoverable amount. An impairment review is undertaken when indicators of impairment arise but normally when one of the following conditions applies:

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Loss Per Share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted loss per share is determined by adjusting the profit or loss attributable to common shareholders and the weighted average number of common shares outstanding, adjusted for own shares held, for the effects of all dilutive potential common shares, which comprise share options granted to employees and warrants.

### Share-Based Payments

The Company records compensation expense associated with share awards and share options granted to directors and employees at fair value and records the expense over the vesting period and is recognized when services are received. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. The fair value at the grant date of share options is calculated using the Black-Scholes valuation model.

The compensation expense is allocated to operations or capitalized to exploration and evaluation assets, depending on the nature of the services performed.

Consideration received on the exercise of share options is recorded as share capital and the reserves, recognized initially in contributed surplus as the options vested with the recipient, are transferred to share capital.

### Income Taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Property and Equipment

#### (i) Recognition and Measurement

On initial recognition, property, plant and equipment are recorded at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation and accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gains or loss on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within other income in profit or loss.

#### (ii) Subsequent Costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. Ongoing maintenance of property, plant and equipment are recognized in profit or loss as incurred.

#### (iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land typically has an unlimited useful life and is not depreciated.

For exploration field equipment and vehicles, depreciation is included as part of exploration and evaluation assets. Assets under construction are depreciated when they are capable of being put into production in their intended use.

The estimated useful lives for the current and comparative periods are as follows:

| | **Useful life** |
|---|---|
| Computer equipment | 5 years |
| Furniture and fixtures | 10 years |
| Field equipment | 5 years |
| Mining property and equipment | Life of mine |

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to passage of time is recognized as a finance cost.

### Decommissioning Liability

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration, development or ongoing production of mineral property interests. A liability is recognized in the period in which it is incurred and when a reliable estimate of the fair value of the liability can be made. The costs are amortized to profit or loss over the life of the related asset. The initial fair value of the liability is adjusted each period for the unwinding of the discount cost.

### Impairment

#### (i) Non-Financial Assets

The carrying amounts of non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

The recoverable amount of an asset or cash-generating unit is the greater of fair value less costs to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit, or CGU”).

The Company’s corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss is reversed when there is an indication that the impairment loss may no longer exist. The maximum amount of the reversal is the lower of the amount necessary to bring the carrying amount of the asset to its recoverable amount; and the amount necessary to restore the assets of the cash generating unit to their carrying amount prior to impairment.

For the years ended December 31, 2019 and 2018, no impairment charges, or reversals were recorded.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment (Continued)

#### (ii) Financial Assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the loss allowance for the financial asset is measured at an amount equal to the lifetime expected credit losses if the credit risk on the financial assets has increased significantly since initial recognition. If at the reporting date, the credit risk on the financial asset has not increased significantly since initial recognition, the loss allowance is measured at an amount equal to the twelve month expected credit loss. For trade receivables, the Company applies the simplified approach to providing for expected credit losses, which allows the use of a lifetime expected loss provision. Given the nature and balances of the Company's financial assets at amortized cost, the Company has no material credit loss allowance.

### Finance Income and Finance Costs

Finance income comprises interest on cash, cash equivalents and deposits. Interest income is recognized as it accrues in profit or loss, using the effective interest method.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, and impairment losses recognized on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

### Accounting Pronouncements Adopted During the Year

<u>Accounting for Leases - IFRS 16</u>

In January 2016, the IASB issued IFRS 16 - Leases ("IFRS 16"), replacing IAS 17 - Leases. IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its statement of financial position, providing the reader with greater transparency of an entity’s lease obligations.

At January 1, 2019, the Company adopted IFRS 16 using the modified retrospective approach and accordingly the information presented for 2018 has not been restated. Further, the Company has elected to record the transition date right-of-use asset at the amount equal to the calculated lease liability and has not accounted for low value or short-term leases (leases with a duration of less than twelve months). Comparative figures remain as previously reported under IAS 17 and related interpretations. The impact of adopting IFRS 16 was the recording of a right-of-use asset and lease liability of $95,780 at January 1, 2019 as further disclosed in notes 8 and 9. The following are the Company's new accounting policies for leases:

All leases are accounted for by recognising a right-of-use asset and a lease liability except for:

- Leases of low value assets; and
- Leases with a duration of twelve months or less.

Lease liabilities are measured at the present value of the contractual payments due to the lessor over the lease term, with the discount rate determined as either the rate implicit in the lease or, if not known, the incremental borrowing rate on commencement of the lease. Variable lease payments are only included in the measurement of the lease liability if they depend on an index or rate. In such cases, the initial measurement of the lease liability assumes the variable element will remain unchanged throughout the lease term. Other variable lease payments are expensed in the period to which they relate.

On initial recognition, the carrying value of the lease liability also includes:

- Amounts expected to be payable under any residual value guarantee;
- The exercise price of any purchase option granted if it is reasonably certain to assess that option;
- Any penalties payable for terminating the lease, if the term of the lease has been estimated on the basis of termination option being exercised.

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Accounting Pronouncements Adopted During the Year (Continued)**

Accounting for Leases - IFRS 16 (Continued)

Right-of-use assets are initially measured at the amount of the lease liability, reduced for any lease incentives received, and increased for:

- Lease payments made at or before commencement of the lease;
- Initial direct costs incurred; and
- The amount of any provision recognised where the Company is contractually required to dismantle, remove or restore the leased asset.

Lease liabilities increase over time as a result of interest accretion at a constant rate on the balance outstanding and are reduced for lease payments made.

Right-of-use assets are amortised on a straight-line basis over the remaining term of the lease or over the remaining economic life of the asset if this is judged to be shorter than the lease term.

When the Company revises its estimate of the term of any lease, it adjusts the carrying amount of the lease liability to reflect the payments to make over the revised term, which are discounted at the same discount rate that applied on lease commencement. The carrying value of lease liabilities is similarly revised when the variable element of future lease payments dependent on a rate or index is revised. In both cases an equivalent adjustment is made to the carrying value of the right-of-use asset, with the revised carrying amount being amortised over the remaining (revised) lease term.

**Future Accounting Pronouncements**

IAS 1, Presentation of Financial Statements ("IAS 1")

Amendments to IAS 1, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The adoption of the amendments are not expected to have an impact on the Company's consolidated financial statements.

IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors ("IAS 8")

Amendments to IAS 8, issued in October 2018, provide clarification on the definition of material and how it should be applied. The amendments also align the definition of material across IFRS and other publications.

The amendments are effective for annual periods beginning on or after January 1, 2020 and are required to be applied prospectively. The adoption of the amendments are not expected to have an impact on the Company's consolidated financial statements.

**(PRESENTED IN CANADIAN DOLLARS)**

## 4. CASH HELD FOR RECLAMATION

The Company is required to make reclamation deposits in respect of its expected rehabilitation obligations as set out below.

The Company has agreed with the Province of Nova Scotia (Department of Natural Resources) to remediate the ScoZinc mine facility to an agreed status at the end of the mining operations at the site; as a result the Company is required to make reclamation deposits in respect of this obligation. As at December 31, 2019, a $2,874,286 (2018 – $2,813,826) cash bond, including accrued interest, is posted with the Province of Nova Scotia.

In addition, the Company has a reclamation bond with the Nova Scotia Department of Environment for $189,330 (2018 – $187,026), including accrued interest, which is required to address the potential replacement of domestic water supplies that could potentially be downgraded by mining operations.

Nova Scotia Business Inc. holds a reclamation bond in the amount of $100,000 (2018 - $100,000) in relation to the land, which the Company leases from the organization in Sheet Harbour. The bond will be held until the current lease agreement expires on April 1, 2028.

## 5. PROPERTY, PLANT AND EQUIPMENT

| | Mine Plant, Equipment and Land | Exploration Field Equipment | Total |
|---|---|---|---|
| **Cost** | | | |
| Balance, December 31, 2017 | $ 8,954,927 | $ 836,641 | $ 9,791,568 |
| Additions | 334,214 | - | 334,214 |
| Balance, December 31, 2018 | 9,289,141 | 836,641 | 10,125,782 |
| Additions | 18,000 | - | 18,000 |
| **Balance, December 31, 2019** | **$ 9,307,141** | **$ 836,641** | **$10,143,782** |
| **Accumulated Amortization** | | | |
| Balance, December 31, 2017 | $ 1,037,998 | $ 836,641 | $ 1,874,639 |
| Amortization | 166,634 | - | 166,634 |
| Balance, December 31, 2018 | 1,204,632 | 836,641 | 2,041,273 |
| Amortization | 168,435 | - | 168,435 |
| **Balance, December 31, 2019** | **$ 1,373,067** | **$ 836,641** | **$ 2,209,708** |
| Net Book Value, December 31, 2018 | $ 8,084,509 | $ - | $ 8,084,509 |
| **Net Book Value, December 31, 2019** | **$ 7,934,074** | **$ -** | **$ 7,934,074** |

(PRESENTED IN CANADIAN DOLLARS)

## 6. ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

| | **2019** | 2018 |
|---|---|---|
| Refundable GST/HST | **$ 50,822** | $ 128,959 |
| Prepaid expenses | **35,033** | 20,489 |
| | **$ 85,855** | $ 149,448 |

## 7. EXPLORATION AND EVALUATION ASSETS

### Scozinc Projects, Nova Scotia

As part of the business combination with ScoZinc Limited on May 31, 2011, the Company acquired 100% of the Scotia Mine and several other mineral resource prospects in Halifax, Nova Scotia. The properties are comprised of exploration licences and a mineral property lease that provides for zinc and lead exploration and development.

The following is a continuity of the Company's Projects:

| | |
|---|---|
| Balance, December 31, 2017 | $ 6,084,995 |
| Additions | 949,772 |
| Balance, December 31, 2018 | 7,034,767 |
| Additions | 217,768 |
| **Balance, December 31, 2019** | **$ 7,252,535** |

Additions for the year ended December 31, 2019 consist of geological fieldwork of $36,560 (2018 - $55,848), land permit and claims fees of $71,556 (2018 - $84,107), and consulting engineer fees and associated labour of $109,562 (2018 - $809,817), which included work in updating the Company's technical report, preliminary economic assessment, environmental compliance, as well as preparation for restart of the facility.

## 8. RIGHT-OF-USE ASSETS

| | |
|---|---|
| IFRS 16 - right-of-use asset recognition | $ 95,780 |
| **Right-of-use assets at January 1, 2019** | **95,780** |
| Amortization | (10,355) |
| **Balance, December 31, 2019** | **$ 85,425** |

Right-of-use assets consist of the operating lease for the Company's Sheet Harbour Port facilities and are amortized over a period of 111 months.

**(PRESENTED IN CANADIAN DOLLARS)**

## 9. LEASE LIABILITIES

At the commencement date of the lease, the lease liability was measured at the present value of the lease payments that were not paid at that date. The lease payments are discounted using an interest rate of 10%, which is the Company's estimated incremental borrowing rate. The continuity of the lease liabilities are presented in the table below:

| | | |
|---|---|---|
| Operating lease commitment as at December 31, 2018 | $ | 148,000 |
| Discounting at incremental borrowing rate | | (52,220) |
| Lease liability recorded at January 1, 2019 on adoption of IFRS 16 | $ | 95,780 |
| Interest accretion | | 2,185 |
| Lease payments | | (16,000) |
| **Balance, December 31, 2019** | **$** | **81,965** |
| As at December 31, 2019 | | |
| Less than one year | $ | 14,545 |
| Greater than one year | | 67,420 |
| **Total lease obligation** | **$** | **81,965** |

**Maturity Analysis - Contractual Undiscounted Cash Flows**

| | | |
|---|---|---|
| As at December 31, 2019 | | |
| Less than one year | $ | 16,000 |
| Greater than one year | | 116,000 |
| **Total undiscounted lease obligation** | **$** | **132,000** |

## 10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | | **2019** | | 2018 |
|---|---|---|---|---|
| Trade payables | **$** | **250,215** | $ | 410,897 |
| Accrued expenses | | **88,909** | | 39,000 |
| | **$** | **339,124** | $ | 449,897 |

During the year ended December 31, 2019, the Company settled certain accounts payable and accrued liabilities resulting in a gain on settlement of $16,238. When combined with a net loss on the settlement of certain liabilities by issuance of shares (Notes 12(v) and (vi)), the Company recorded a net loss on settlement of liabilities of $65 in the Company's statement of loss on comprehensive loss.

## 11. DECOMMISSIONING LIABILITY

The Company has agreed with the Province of Nova Scotia (Department of Natural Resources) to remediate the Scotia Mine facility to an agreed status at the completion of the mining operations at the site. The Company believes that the reclamation of the mine site will cost $2,600,000. As the Scotia Mine facility is currently not in production and under care and maintenance, the Company has accrued the full amount potentially due.

(PRESENTED IN CANADIAN DOLLARS)

## 12. SHARE CAPITAL

(a) AUTHORIZED

Unlimited number of common shares without par value
Unlimited number of Class A preferred shares with no par value
Unlimited number of Class B preferred shares with a par value of $10 per share

(b) ISSUED - COMMON SHARES

| | Shares | Amount |
|---|---|---|
| Balance, December 31, 2017 | 3,941,045 | $ 80,251,853 |
| Private placements, net of costs | 1,324,999 | 1,424,745 |
| Issuance of warrants on private placement | - | (318,006) |
| **Balance, December 31, 2018** | **5,266,044** | **$ 81,358,592** |
| Private placement, net of costs | 4,350,000 | 1,776,435 |
| Issuance of warrants on private placement | - | (698,455) |
| Issuance of broker warrants on private placement | - | (4,684) |
| Issued on settlement of debt | 485,416 | 210,469 |
| **Balance, December 31, 2019** | **10,101,460** | **$ 82,642,357** |

i) On February 13, 2018, the Company closed a non-brokered private placement financing for aggregate gross proceeds of $397,500. The offering consisted of the sale of 264,999 common shares at a price of $1.50 per common share. The securities issued pursuant to the offering were subject to a four month and one day statutory hold period. The Company's Chief Executive Officer ("CEO") participated in the Offering and acquired 35,000 common shares. Total cash costs of issue were $2,331.

ii) On June 18, 2018, the Company closed a non-brokered private placement financing for aggregate gross proceeds of $560,000. The offering consisted of the sale of 560,000 Units at a price of $1.00 per Unit where a Unit consists of one common share and one warrant exercisable into one common share for two years at a price of $1.50 per common share. The securities issued pursuant to the Offering were subject to a four month and one day statutory hold period. The Company's CEO participated in the offering, acquiring 300,000 Units. Total cash costs of issue were $30,424.

The fair value of the 560,000 warrants issued in conjunction with this private placement is $172,256, as calculated using the Black-Scholes option pricing model with the following assumptions: a 24 months expected life; share price of $0.92; 85.6% expected volatility; risk free interest rate of 1.9%; and an expected dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the warrants.

iii) On July 18, 2018, the Company closed a non-brokered private placement financing for aggregate gross proceeds of $500,000. The offering consisted of the sale of 500,000 Units at a price of $1.00 per Unit where a Unit consists of one common share and one warrant exercisable into one common share for two years at a price of $1.50 per common share. The securities issued pursuant to the offering were subject to a four month and one day statutory hold period.

The fair value of the 500,000 warrants issued in conjunction with this private placement is $145,750, as calculated using the Black-Scholes option pricing model with the following assumptions: a 24 months expected life; share price of $0.90; 84.6% expected volatility; risk free interest rate of 1.9%; and an expected dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the warrants. Each Warrant will be exercisable upon 61 days' notice to the Company.

**12. SHARE CAPITAL** (Continued)

iv) On April 10, 2019, the Company closed a non-brokered private placement financing for aggregate gross proceeds of $550,000. The offering consisted of the sale of 1,100,000 Units at a price of $0.50 per Unit where a Unit consists of one common share and one half warrant with each whole warrant exercisable for two years at a price of $0.75 per common share. Additionally, 37,000 broker warrants were issued under the same terms. Total cash costs of issue were $35,000.

The fair value of the 550,000 warrants issued in conjunction with this private placement is $69,630, as calculated using the Black-Scholes option pricing model with the following assumptions: a 24 months expected life; share price of $0.45; 77.30% expected volatility; risk free interest rate of 1.58%; and an expected dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the warrants.

The fair value of the 37,000 broker warrants issued in conjunction with this private placement is $4,684, as calculated using the Black-Scholes option pricing model with the following assumptions: a 24 months expected life; share price of $0.45; 77.30% expected volatility; risk free interest rate of 1.58%; and an expected dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the warrants.

v) On June 25, 2019, the Company issued an aggregate of 391,666 common shares at a deemed price of $0.40 per common share, in consideration for the settlement of a total of $156,666 in accrued liabilities as follows: $40,000 owing to the Company's CEO, and $33,000 owing to each of two directors (Mr. Hopkins and Mr. Montpellier) with the remaining $50,666 owing to a consultant. As a result of the excess of the fair value of the common shares issued over the liabilities settled, the Company recognized a $19,584 loss on settlement of liabilities on the Company's consolidated statements of loss and comprehensive loss.

vi) On August 2, 2019, the Company issued 93,750 common shares at a deemed price of $0.40 per common share, in consideration for the settlement of $37,500 in accrued directors fees owing to Mr. Victor Lazarovici. As a result of the deficiency of the fair value of the common shares issued over the liabilities settled, the Company recognized a $3,281 gain on settlement of liabilities on the Company's consolidated statements of loss and comprehensive loss.

vii) On August 20, 2019, the Company closed the first tranche of a non-brokered private placement financing for aggregate gross proceeds of $500,000. The offering consisted of the sale of 1,250,000 Units at a price of $0.40 per Unit where a Unit consists of one common share and one warrant exercisable for two years at a price of $0.55 per common share. Total cash costs of issue were $16,939.

The fair value of the 1,250,000 warrants issued in conjunction with this private placement is $181,625, as calculated using the Black-Scholes option pricing model with the following assumptions: a 24 months expected life; share price of $0.395; 84.62% expected volatility; risk free interest rate of 1.34%; and an expected dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the warrants.

viii) On September 20, 2019, the Company closed the second tranche of a non-brokered private placement financing for aggregate gross proceeds of $800,000. The offering consisted of the sale of 2,000,000 Units at a price of $0.40 per Unit where a Unit consists of one common share and one warrant exercisable for two years at a price of $0.55 per common share. Total cash costs of issue were $21,665.

The fair value of the 2,000,000 warrants issued in conjunction with this private placement is $447,200, as calculated using the Black-Scholes option pricing model with the following assumptions: a 24 months expected life; share price of $0.51; 85.54% expected volatility; risk free interest rate of 1.57%; and an expected dividend yield of 0%. Volatility is calculated based on the changes in historical stock prices over the expected life of the warrants.

**(PRESENTED IN CANADIAN DOLLARS)**

## 13. SHARE BASED PAYMENTS

### a) Stock Option Plan

A stock option plan ("Plan") was established to provide incentive to qualified parties to increase their proprietary interest in the Company and thereby encourage their continuing association with the Company. Each year, shareholders of the Company approve the Plan at the Annual General Meeting. The Plan provides that the Board of Directors of the Company may from time to time, in its discretion, grant to directors, officers, employees and consultants of the Company, or any subsidiary of the Company, the option to purchase common shares. The Plan provides for a floating maximum limit of 10% of the outstanding common shares of the common shares as permitted by the policies of the TSX-V. Options under the Plan have five-year terms with vesting as determined by the Board.

Share option activity for the year ended December 31, 2019 and 2018 are as follows:

| | Number of Stock Options Outstanding | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance - December 31, 2017 and 2018 | 339,000 | 1.40 |
| | | |
| Balance - December 31, 2018 | 339,000 | 1.40 |
| Granted | 515,000 | 0.51 |
| Expired/cancelled | (121,000) | 1.05 |
| **Balance - December 31, 2019** | **733,000** | **0.83** |

On July 3, 2019, the Company granted 280,000 options to purchase common shares of the Company to officers, directors, employees and consultants. Each option is exercisable at a price of $0.45 for a five-year term. 225,000 of the options were granted to directors and officers of the Company. A fair value of $106,960 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.45 expected volatility 126.63% a risk-free rate of return 1.41% and expected life of 5 years. These options are subject to vesting at a rate of 25% on the date of grant, and 25% every six months thereafter.

On August 12, 2019, the Company granted 90,000 options to purchase common shares of the Company to the Company's new CEO and a director of the Company. Each option is exercisable at a price of $0.45 for a five year term. A fair value of $27,081 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.365 expected volatility 124.64% a risk-free rate of return 1.20% and expected life of 5 years. All options vested upon grant.

On August 20, 2019, the Company granted 50,000 options to purchase common shares of the Company to the Company's new CEO. Each option is exercisable at a price of $0.75 for a five year term. A fair value of $15,495 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.395 expected volatility 124.64% a risk-free rate of return 1.19% and expected life of 5 years. All options vested upon grant.

On August 20, 2019, the Company granted 50,000 options to purchase common shares of the Company to the Company's new CEO. Each option is exercisable at a price of $0.60 for a five year term. A fair value of $15,915 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.395 expected volatility 124.64% a risk-free rate of return 1.19% and expected life of 5 years. All options vested upon grant.

(PRESENTED IN CANADIAN DOLLARS)

## 13. SHARE BASED PAYMENTS (Continued)

### a) **Stock Option Plan** (Continued)

On October 3, 2019, the Company granted an aggregate of 45,000 options to purchase common shares of the Company director and an employee. Each option is exercisable at prices between $0.45 and $0.75 for a five year term. A fair value of $20,703 was assigned to these options, estimated using the Black-Scholes valuation model with the following weighted average assumptions: dividend yield 0%, share price of $0.55 expected volatility 124.64% a risk-free rate of return 1.30% and expected life of 5 years. 20,000 of the options vest at a rate of one third on the anniversary date of the grant, and the remaining 25,000 are subject to vesting at a rate of 25% on the date of grant, and 25% every six months thereafter.

The following table summarizes information about stock options outstanding as at December 31, 2019:

| Number of Options Outstanding | Expiry Date | Exercise Price ($) | Weighted Average Remaining Contractual Life (years) | Number of Options Vested (Exercisable) |
|---|---|---|---|---|
| 66,000 | February 19, 2020 | 2.01 | 0.14 | 66,000 |
| 33,000 | August 25, 2020 | 1.35 | 0.65 | 33,000 |
| 174,000 | July 13, 2022 | 1.11 | 2.53 | 174,000 |
| 225,000 | July 3, 2024 | 0.45 | 4.51 | 56,250 |
| 90,000 | August 12, 2024 | 0.45 | 4.62 | 90,000 |
| 50,000 | August 20, 2024 | 0.75 | 4.64 | 50,000 |
| 50,000 | August 20, 2024 | 0.60 | 4.64 | 50,000 |
| 20,000 | October 3, 2024 | 0.60 | 4.77 | - |
| 9,000 | October 3, 2024 | 0.45 | 4.77 | 2,250 |
| 9,000 | October 3, 2024 | 0.60 | 4.77 | 2,250 |
| 7,000 | October , 2024 | 0.75 | 4.77 | 1,750 |
| 733,000 | | 0.83 | 3.52 | 525,500 |

### b) **Warrants**

The following table reflects the continuity of warrants for the year ended December 31, 2019 and 2018:

| | Number of Warrants Outstanding | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2017 | - | $ - |
| Warrants issued on private placement | 1,060,000 | 1.50 |
| Balance - December 31, 2018 | 1,060,000 | $ 1.50 |
| Warrants issued on private placement | 3,800,000 | 0.58 |
| Broker warrants issued on private placement | 37,000 | 0.75 |
| **Balance - December 31, 2019** | **4,897,000** | **$ 0.78** |

**(PRESENTED IN CANADIAN DOLLARS)**

## 13. SHARE BASED PAYMENTS (Continued)

b) **Warrants**

The following table summarizes information about warrants outstanding as at December 31, 2019:

| Number of Warrants Outstanding | Expiry Date | Exercise Price ($) | Weighted Average Remaining Contractual Life (years) | Number of Warrants (Exercisable) |
|---|---|---|---|---|
| 560,000 | June 18, 2020 | 1.50 | 0.47 | 560,000 |
| 500,000 | July 18, 2020 | 1.50 | 0.55 | 500,000 |
| 550,000 | April 10, 2021 | 0.75 | 1.28 | 550,000 |
| 37,000 | April 10, 2021 | 0.75 | 1.28 | 37,000 |
| 1,250,000 | August 20, 2021 | 0.55 | 1.64 | 1,250,000 |
| 2,000,000 | Sept. 20, 2021 | 0.55 | 1.72 | 2,000,000 |
| 4,897,000 | | 0.78 | 1.38 | 4,897,000 |

## 14. COMMITMENTS AND CONTINGENCIES

COVID-19

Due to the worldwide COVID-l9 outbreak, material uncertainties may come into existence that could influence management's going concern assumption. Management cannot accurately predict the future impact COVID-19 may have on:

- Global metal prices;
- The severity and the length of potential measures taken by governments to manage the spread of the virus and their effect on labour availability and supply lines;
- Availability of essential supplies;
- Purchasing power of the Canadian dollar; and
- Ability to obtain funding.

At the date of the approval of these consolidated financial statements, the Canadian government has not introduced measures which impede the activities of the Company. Management believes the business will continue and accordingly, the current situation bears no impact on management's going concern assumption. However, it is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company in future periods.

(PRESENTED IN CANADIAN DOLLARS)

## 15. BASIC AND DILUTED LOSS PER SHARE

Basic loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted loss per share, which reflects the maximum possible dilution from the potential exercise of warrants and stock options, is the same as basic loss per share for the period ended. The effect of potential issuances of shares under options and warrants would be anti-dilutive for the year ended December 31, 2019 and 2018 as they would decrease the loss per share, consequently the weighted average number of common shares outstanding for basic and diluted are the same.

## 16. RELATED PARTY TRANSACTIONS

All transactions with related parties have occurred in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Except as noted, amounts with related parties are non-interest bearing, unsecured, payable on demand and have arisen from the provision of services and expense reimbursements described.

**Key Management Personnel Compensation**

| | | **2019** | | 2018 |
|---|---|---|---|---|
| Board of Directors, Officers, and Key Management Personnel | | | | |
| Remuneration | **$** | **265,089** | $ | 324,348 |
| Share-based compensation[1] | | **121,955** | | - |
| | **$** | **387,044** | $ | 324,348 |

[1]Share-based compensation is disclosed in this table based on the fair value of the stock option grant at the date of grant.

During the year ended December 31, 2019, the Company expensed $90,421 (2018 - $115,006) to Marrelli Support Services Inc. (“Marrelli Support”) and DSA Corporate Services Inc. (the “DSA”), together known as the “Marrelli Group” for:

(i) Robert D.B. Suttie, President of Marrelli Support, to act as Chief Financial Officer (“CFO”) of the Company;
(ii) Bookkeeping and office support services;
(iii) Regulatory filing services; and
(iv) Corporate secretarial services.

The Marrelli Group is also reimbursed for out of pocket expenses.

As at December 31, 2019, amounts due to related parties totaled $52,768 (2018 - $279,269) pertaining to amounts payable for key management remuneration, director's fees, support services from the Marrelli Group, and reimbursement of expenses paid on behalf of the Company.

The Company's former Chief Executive Officer participated in the February 13, 2018 non-brokered private placement, acquiring 35,000 common shares for $52,500.

A director of the Company participated in the August 20, 2019 non-brokered private placement, acquiring 1,250,000 Units for $500,000.

The Company's current Chief Executive Officer participated in the September 20, 2019 non-brokered private placement, acquiring 375,000 Units for $150,000.

The above noted transactions are in the normal course of business and are measured at the exchange amount, as agreed to by the parties, and approved by the Board of Directors in strict adherence to conflict of interest laws and regulations.

**(PRESENTED IN CANADIAN DOLLARS)**

## 17. INCOME TAXES

The effective income tax rates differ from Canadian statutory rates for the following reasons:

| | **2019** | 2018 |
|---|---|---|
| Loss before income taxes | **$ 1,492,960** | $ 1,624,284 |
| Combined federal and provincial rates at expected rates | **31.00%** | 31.00% |
| Expected income tax expense (recovery) | **$ (462,818)** | $ (503,528) |
| Permanent differences | **42,052** | 21,016 |
| Change in unrecognized temporary differences and rate | **320,535** | 489,311 |
| Adjustments to filed tax returns and other | **100,231** | (6,799) |
| Deferred income tax expense (recovery) | **$ -** | $ - |

Deferred tax assets and liabilities are attributable as follows:

| | **2019** | 2018 |
|---|---|---|
| Non-capital loss carryforwards | **$ 1,085,464** | $ 1,041,688 |
| Property, plant and equipment, mineral properties and other | **(1,085,464)** | (1,041,688) |
| Net deferred tax asset (liability) | **$ -** | $ - |

Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | **2019** | 2018 |
|---|---|---|
| Non-capital losses | **$ 49,734,152** | $ 48,691,199 |
| Mineral properties, including decommissioning | **5,834,223** | 5,834,173 |
| Allowable capital loss and other deductible temporary differences | **1,306,223** | 1,227,718 |
| Investment tax credits | **1,874,831** | 1,874,831 |
| | **$ 58,749,429** | $ 57,627,921 |

## 17. INCOME TAXES (Continued)

At December 31, 2019, the Group has accumulated non-capital losses of approximately $53.3 million. The non-capital losses can be carried forward to reduce taxable income derived in future years. The Group has approximately $2.5 million of capital losses not subject to expiry and $1.9 million in investment tax credits that expire between 2026 and 2035. The non-capital tax losses will expire as follows:

| Year of Expiry | Amount |
|---|---|
| 2026 | $ 4,127,363 |
| 2027 | 6,613,353 |
| 2028 | 3,122,183 |
| 2029 | 744,714 |
| 2030 | 10,586,402 |
| 2031 | 4,624,571 |
| 2032 | 11,233,033 |
| 2033 | 4,159,612 |
| 2034 | 2,030,682 |
| 2035 | 1,626,449 |
| 2036 | 802,770 |
| 2037 | 1,003,019 |
| 2038 | 1,396,017 |
| 2039 | 1,193,504 |
| | $ 53,263,672 |

## 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company has exposure to the following risks from its use of financial instruments:

- Market risk
- Credit risk
- Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

**Risk Management Framework**

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework and while retaining ultimate responsibility for them, it has delegated the authority for designing policies and systems that ensure the effective execution of the objectives and policies to the Company's finance function.

(a) **Market Risk**

Market risk is the risk that changes in market prices will affect the fair value of future cash flows of a financial instrument. Market prices are comprised of three types of risk for the Company: currency risk, interest rate risk, and commodity price risk.

**Currency Risk**

Currency risk is the risk that fluctuation in exchange rates between the Canadian dollar or other foreign currencies will affect the Company's financial results. The Company's operations and financing activities are conducted primarily in Canadian dollars and as a result, it is not exposed to significant foreign currency risk.

(PRESENTED IN CANADIAN DOLLARS)

## 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

### (a) Market Risk (Continued)

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company is exposed to interest risk arising primarily from its cash held mainly in short term interest bearing accounts with Canadian chartered banks. The impact of a change in interest rates is not significant.

**Commodity Price Risk**

The value of the Company's mineral resource properties is related to the price of zinc and the outlook for zinc, however the Company does not currently have an operating mine and does not have any derivative commodity contracts or other commodity based risks in respect of operations.

### (b) Credit Risk

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. To minimize credit risk, cash is deposited in a Canadian chartered bank and may be redeemed on demand and cash held for reclamation is held by government authorities where credit risk is minimal. Amounts receivable primarily consists of GST/HST refunds amounting to $50,822 (2018 - $128,959) from the Canadian government. The Company monitors the collectability of its amounts receivable and has not had difficulty collecting amounts receivable. Consequently, management considers credit risk to be minimal.

### (c) Liquidity Risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. The Company reviews its expenditure budgets against actual expenditures weekly to ensure there is sufficient working capital to discharge all financial obligations (see Note 1).

The following are the remaining contractual maturities (representing undiscounted contractual cashflows) of financial liabilities, including interest payments:

| December 31, 2019 | Up to 3 Months | Between 3 and 12 Months | Between 1 and 2 Years | Total |
|---|---|---|---|---|
| Accounts payables and accrued liabilities, and amounts payable to related parties | $ 391,892 | $ - | $ - | $ 391,892 |

| December 31, 2018 | Up to 3 Months | Between 3 and 12 Months | Between 1 and 2 Years | Total |
|---|---|---|---|---|
| Accounts payables and accrued liabilities, and amounts payable to related parties | $ 729,166 | $ - | $ - | $ 729,166 |

## 18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

### Fair Value of Financial Instruments

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 inputs are inputs other than quoted market prices included in Level 1 that are observable for the asset or liability, either directly, such as prices, or indirectly (derived from prices).

Level 3 inputs are unobservable and supported by little to no market data.

The fair value of amounts receivable, cash held for reclamation, accounts payable and accrued liabilities, and amounts due to related parties approximate their carrying values due to the short-term nature of these instruments, or in the case of reclamation deposits, the rate of interest being applied on the funds deposited.

When applicable, further information about the assumptions made in determining fair value is disclosed in the notes specific to that asset or liability.

There have been no transfers between fair value levels during the reporting period.

## 19. CAPITAL MANAGEMENT

The Company manages its capital with the following objectives:

- to ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- to maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, comprising share capital, contributed surplus, warrants and deficit, which at December 31, 2019 totaled $15,966,786 (2018 - $15,319,715 ). The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures, and other investing and financing activities. The forecast is updated based on activities related to its mineral properties. Information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the year ended December 31, 2019. The Company is not subject to any capital requirements imposed by a lending institution or regulatory body, other than Policy 2.5 of the TSXV Venture Exchange (“TSXV”) which requires adequate working capital or financial resources of the greater of (i) $50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months. As of December 31, 2019, the Company was compliant with Policy 2.5 (see also Note 1).

## 20. SUBSEQUENT EVENTS

i) Subsequent to December 31, 2019, the outbreak of the novel strain of coronavirus, specifically identified as “COVID-19”, has resulted in governments worldwide enacting emergency measures to combat the spread of the virus. These measures, which include the implementation of travel bans, self-imposed quarantine periods and social distancing, have caused material disruption to businesses globally resulting in an economic slowdown. Global equity markets have experienced significant volatility and weakness. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 outbreak is unknown at this time, as is the efficacy of the government and central bank interventions. It is not possible to reliably estimate the length and severity of these developments and the impact on the financial results and condition of the Company and its operating subsidiaries in future periods, however the impact of the pandemic could impact the Company's ability to obtain financing to fund our planned activities.

ii) On February 5, 2020, the Company announced that pursuant to the Company's Stock Option Plan, the Company granted a director of the Corporation, 40,000 stock options in the Company at an exercise price of $0.52 each. The options have a 5-year term, with 25% of the stock options granted vesting immediately, and the remainder vesting in 25% increments every six months thereafter.

iii) Subsequent to December 31, 2019, 66,000 stock options expired unexercised.

iv) On May 29, 2020, the Company closed a third and final tranche of a non-brokered private placement of units of the Company (“Units”), with previous tranches having been closed on April 22, 2020 and May 22, 2020. The aggregate gross proceeds of the private placement was $1,150,000 based on the issuance of 3,833,333 Units at a price of $0.30 per Unit. Each Unit consists of one common share of the Company and a common share purchase warrant (a “Warrant”). Each full Warrant is exercisable into a common share at a price of $0.50 per common share for a period of twenty-four months from the date of issue.

In connection with the private placement the Company paid cash finder’s fees of $18,759 and issued 62,531 compensation warrants as share issue costs, with each compensation warrant having the same terms as the Warrants issued as part of a Unit.

Directors, officers and other insiders of the Company subscribed 1,256,620 Units, for gross proceeds of $376,986.

v) On March 17, 2020 the Company issued 150,000 common shares to the Company’s former CEO to settle $197,190 in accrued liabilities owed to the former CEO. The common shares are subject to a four-month hold period.