



**CONSOLIDATED FINANCIAL STATEMENTS**

**YEARS ENDED**

**SEPTEMBER 30, 2020 AND 2019**

**(in thousands of United States Dollars unless stated otherwise)**



KPMG LLP  
Purdy's Wharf Tower One  
1959 Upper Water Street, Suite 1500  
Halifax Nova Scotia B3J 3N2  
Canada  
Telephone 902-492-6000  
Fax 902-492-1307

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of GoGold Resources Inc.

### ***Opinion***

We have audited the consolidated financial statements of GoGold Resources Inc. (the "Entity"), which comprise:

- the consolidated statements of financial position as at September 30, 2020 and September 30, 2019
- the consolidated statements of operations and comprehensive income for the years then ended
- the consolidated statements of cash flows for the years then ended
- the consolidated statements of changes in equity for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at September 30, 2020 and September 30, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### ***Basis for Opinion***

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

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

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



### ***Other Information***

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

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

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



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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within 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.

The engagement partner on the audit resulting in this auditors' report is Douglas Reid.

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

Chartered Professional Accountants

Halifax, Canada

December 16, 2020



SILVER & GOLD

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(in thousands of United States dollars)

	September 30 2020	September 30 2019
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 52,626	\$ 2,408
Marketable securities (Note 5)	-	4,747
Trade receivables	4,768	3,272
Input tax recoverable	6,842	2,257
Prepaid expenses	286	227
Inventories (Note 6)	9,205	8,552
	<u>73,727</u>	<u>21,463</u>
Non-current assets:		
Input tax recoverable	4,525	8,048
Inventories (Note 6)	16,867	18,251
Property, plant and equipment (Note 7)	66,041	24,625
Exploration and evaluation assets (Note 8)	21,939	12,355
<b>Total assets</b>	<u>\$ 183,099</u>	<u>\$ 84,742</u>
<b>LIABILITIES</b>		
Current liabilities:		
Trade and other payables	\$ 6,124	\$ 6,159
Current portion of long-term obligation (Note 9)	1,952	2,139
	<u>8,076</u>	<u>8,298</u>
Non-current liabilities:		
Long-term obligation (Note 9)	1,562	1,736
Provision for site restoration (Note 10)	1,434	1,348
Derivative liability (Note 19(d))	1,198	549
<b>Total liabilities</b>	<u>12,270</u>	<u>11,931</u>
<b>EQUITY</b>		
Share capital (Note 11)	202,356	147,914
Contributed surplus	8,881	7,974
Accumulated other comprehensive loss	(6,130)	(5,651)
Deficit	(34,278)	(77,426)
<b>Total equity</b>	<u>170,829</u>	<u>72,811</u>
<b>Total liabilities and equity</b>	<u>\$ 183,099</u>	<u>\$ 84,742</u>

Commitments (Note 18)

Signed on behalf of the Board:

"John Turner"  
John Turner

"George Wayne"  
George Wayne

See accompanying notes to the consolidated financial statements.



SILVER & GOLD

## CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(in thousands of United States dollars, except per share amounts)

	<u>September 30 2020</u>	<u>September 30 2019</u>
For the year ended		
Revenue from mining operations	<u>\$ 39,548</u>	<u>\$ 26,972</u>
Cost of sales:		
Production costs, except amortization and depletion	26,903	19,508
Amortization and depletion	3,694	5,685
Inventory net realizable value adjustment (Note 6)	-	1,489
	<u>30,597</u>	<u>26,682</u>
General and administrative	<u>4,999</u>	<u>4,700</u>
Operating income (loss)	<u>3,952</u>	<u>(4,410)</u>
Exploration (Note 8)	-	(459)
Finance costs	(414)	(252)
Foreign exchange loss	(1,182)	(69)
Fair market value adjustment on marketable securities (Note 5)	280	3,215
Gain on sale of royalty (Note 5)	-	11,837
Loss on derivative liability	(649)	(197)
Interest and dividend income	76	339
Impairment adjustment reversal (Note 13)	<u>41,085</u>	<u>-</u>
	<u>39,196</u>	<u>14,414</u>
Income before income taxes	<u>43,148</u>	<u>10,004</u>
Deferred income tax expense (Note 12)	<u>-</u>	<u>1,890</u>
Net income	43,148	8,114
Other comprehensive income (loss):		
Foreign currency translation differences arising on translation of foreign subsidiaries which may subsequently be cycled through net income	<u>(479)</u>	<u>(128)</u>
Total comprehensive income for the year	<u>\$ 42,669</u>	<u>\$ 7,986</u>
Net income per share (Note 11(f))		
Basic	\$ 0.206	\$ 0.048
Diluted	\$ 0.199	\$ 0.047



SILVER & GOLD

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands of United States dollars)

	September 30 <u>2020</u>	September 30 <u>2019</u>
For the year ended		
Cash provided by (used in) the following activities:		
Operating activities		
Net income for the year	\$ 43,148	\$ 8,114
Items not involving cash:		
Amortization and depletion	3,694	5,685
Amortization of deferred financing fees and accretion	368	116
Deferred income taxes	-	1,890
Fair market value adjustment on marketable securities	(280)	(3,215)
Foreign exchange loss	1,182	69
Gain on sale of assets (Note 5)	-	(11,837)
Loss on derivative liability	649	197
Impairment reversal (Note 13)	(41,085)	-
Inventory net realizable value adjustment (Note 6)	-	1,489
Stock based compensation	1,073	466
	<u>8,749</u>	<u>2,974</u>
Net change in non-cash operating working capital (Note 14)	<u>(2,801)</u>	<u>(14,838)</u>
Net cash provided by (used in) operating activities	<u>5,948</u>	<u>(11,864)</u>
Investing activities		
Exploration and evaluation expenditures (Note 8)	(8,679)	(2,695)
Net proceeds on sale of marketable securities (Note 5)	5,041	4,582
Net proceeds on sale of royalty (Note 5)	-	5,837
Purchase of property, plant and equipment	(2,237)	(1,806)
Net cash (used in) provided by investing activities	<u>(5,875)</u>	<u>5,918</u>
Financing activities		
Net proceeds on equity issuances (Note 11)	41,531	-
Proceeds on warrant exercises (Note 11)	11,580	-
Proceeds on option exercises (Note 11)	446	-
Payment of leases (Note 9)	(437)	-
Payment of long-term obligations (Note 9)	(2,193)	-
Net cash provided by financing activities	<u>50,927</u>	<u>-</u>
Effect of exchange rate changes on cash and cash equivalents	<u>(782)</u>	<u>78</u>
Net increase (decrease) in cash and cash equivalents	50,218	(5,868)
Cash and cash equivalents, beginning of year	<u>2,408</u>	<u>8,276</u>
Cash and cash equivalents, end of year	<u>\$ 52,626</u>	<u>\$ 2,408</u>





SILVER & GOLD

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in thousands of United States dollars)

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive loss	Surplus (Deficit)	Total equity
Balance at October 1, 2018	171,776,481	\$ 142,465	\$ 7,532	\$ (5,523)	\$ (85,540)	\$ 58,934
Net income	-	-	-	-	8,114	8,114
Other comprehensive loss	-	-	-	(128)	-	(128)
DSU exercise (Note 11)	125,000	24	(24)	-	-	-
Shares issued, net of issuance costs (Note 11)	13,921,980	5,425	-	-	-	5,425
Stock-based compensation (Note 11)	-	-	466	-	-	466
<b>Balance at September 30, 2019</b>	<b>185,823,461</b>	<b>147,914</b>	<b>7,974</b>	<b>(5,651)</b>	<b>(77,426)</b>	<b>72,811</b>
Net income	-	-	-	-	43,148	43,148
Other comprehensive loss	-	-	-	(479)	-	(479)
Options exercised	733,200	614	(168)	-	-	446
Stock-based compensation (Note 11)	-	-	1,073	-	-	1,073
Shares issued, net of issuance costs (Note 11)	59,770,535	40,138	-	-	-	40,138
Warrants issued (Note 11)	-	-	2,112	-	-	2,112
Warrants exercised (Note 11)	17,839,592	13,690	(2,110)	-	-	11,580
<b>Balance at September 30, 2020</b>	<b>264,166,788</b>	<b>\$ 202,356</b>	<b>\$ 8,881</b>	<b>\$ (6,130)</b>	<b>\$ (34,278)</b>	<b>\$ 170,829</b>

*See accompanying notes to the consolidated financial statements.*

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

---

### 1. NATURE OF OPERATIONS

GoGold Resources Inc. (the “Corporation”) is a company domiciled in Canada. The address of the Corporation’s registered office is #1301-2000 Barrington Street, Cogswell Tower, Halifax, Nova Scotia, B3J 3K1. The Corporation’s common shares are listed on the Toronto Stock Exchange trading under the symbol GGD and the OTCQX market in the United States under the symbol GLGDF. The consolidated financial statements of the Corporation comprise the Corporation and its subsidiaries. The principal business of the Corporation is the exploration, development, and production of gold and silver primarily in Mexico.

### 2. BASIS OF PREPARATION

#### a) Statement of compliance

These consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

These financial statements were approved by the Board of Directors on December 16, 2020.

#### b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for marketable securities and derivative financial instruments that are measured at fair value through profit or loss. These consolidated financial statements are presented in United States dollars (“US dollars”, “USD”).

#### c) Use of estimates and judgments

The preparation of the consolidated financial statements requires the Corporation's management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Judgment is used mainly in determining whether a balance or transaction should be recognized in the consolidated financial statements. Estimates and assumptions are used mainly in determining the measurement of recognized transactions and balances. However, judgments and estimates are often interrelated. Actual results may differ from these estimates.

Estimates and judgments are continually evaluated and are based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements as well as estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### *Asset acquisitions:*

The Corporation applies judgment in determining whether the exploration and evaluation assets it acquires are considered to be asset acquisitions or business combinations. Key factors in this determination are whether reserves have been established; whether the project is capable of being managed as a business by a market participant, and the nature of the additional work to convert resources into reserves. The Corporation has considered all exploration and evaluation assets acquired to date to be asset acquisitions.

#### *Commercial production:*

The Corporation makes judgments about which indicators to consider when evaluating whether a project has reached commercial production, which may impact the timing and amount of amortization and depletion, the amount of revenue recognized, as well as operating expenses recognized.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

---

### *Estimate of recoverability for non-financial assets:*

Events or changes in circumstances may give rise to significant impairment charges or reversals of impairment in a particular year. In accordance with the Corporation's accounting policy, each non-financial asset or cash generating unit is evaluated every reporting period to determine whether there are any indications of impairment or impairment reversals, which would include a significant decline or increase in the asset's market value, decline in resources and/or reserves as a result of geological re-assessment or change in timing of extraction of resources and/or reserves which would result in a change in the discounted cash flow obtained from the site, and changing metal prices or input cost prices than would have been expected since the most recent valuation of the site.

If any such indication exists, a formal estimate of recoverable amount is determined and an impairment loss recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating unit is measured at the higher of fair value less costs of disposal and value in use.

If recoverability of previously recorded impairment losses is indicated a reversal of the previously recognized loss is recognized adjusted for any applicable amortization and depletion.

Value in use is generally determined as the present value of the estimated future cash flows, but only those expected to arise from the continued use of the asset in its present form and its eventual disposal. Present values are determined using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Fair value less costs of disposal is determined based on the present value of estimated future cash flows from each long-lived asset or cash generating unit. The assumptions used in determining the fair value less costs of disposal are typically life of mine plans, long-term commodity prices, discount rates, foreign exchange rates, and net asset value multiples.

Future cash flow estimates are based on expected production and sales volumes, mineral prices (considering current and historical prices, price trends and related factors), reserves, operating costs, restoration and rehabilitation costs and future capital expenditures.

### *Exploration and evaluation assets:*

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for mineral properties. The technical feasibility and commercial viability is based on management's evaluation of the geological properties of an ore body based on information obtained through evaluation activities, including metallurgical testing, resource and reserve estimates and economic assessment whether the ore body can be mined economically. Once technical feasibility and commercial viability of a mineral property can be demonstrated, exploration costs will be assessed for impairment and reclassified to property, plant and equipment and subject to different accounting treatment.

### *Identification of functional currency:*

The functional currency for the Corporation and each of its subsidiaries is the currency of the primary economic environment in which it operates. Determination of functional currency involves significant judgment in determining the primary economic environment by considering the currency and economic factors that mainly influence sales prices, production and operating costs, financing and related transactions.

### *Inventory – in process:*

The Corporation makes estimates of gold and silver recoverable from tailings stacked on leach pads in the determination of the carrying amount of in process inventory. The quantities of recoverable gold and silver placed on the leach pads are reconciled to the quantities of gold and silver actually recovered (metallurgical balancing), by comparing the estimate of contained ounces 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 and silver from a leach pad, and the timing of the recovery, will not be known until the leaching process is completed. Leach pad recovery estimates are used in the determination of the Corporation's inventories.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

*Inventory – valuation:*

The Corporation values inventory at the lower of cost and net realizable value. The calculation of net realizable value relies on forecasted metal prices, forecasted exchange rates, and estimated costs to complete the processing of in process inventory.

*Provisions for site restoration:*

The Corporation makes estimates for the timing and amount of future cash flows required to settle the Corporation’s reclamation provisions. These estimates require extensive judgment about the nature, cost and timing of the work to be completed, and may change with future changes to costs, environmental laws and regulations and remediation practices. In view of uncertainties concerning environmental rehabilitation, the ultimate costs could be materially different from the amounts estimated.

*Share-based payments:*

The Corporation issues equity-settled share-based payments in the form of stock options and deferred share units to certain employees, directors, and third parties outside the Corporation. Equity-settled share-based payments issued to employees and directors are measured at fair value (excluding the effect of nonmarket based vesting conditions) at the date of grant. Fair value is measured using the Black-Scholes pricing model and requires the exercise of judgment in relation to variables such as expected volatilities and dividend yields based on information available at the time the fair value is measured. Share-based payments issued to third parties are measured at the fair value of the goods or services received except when the fair value cannot be determined reliably, they are measured at the fair value of the equity instruments granted.

*Taxation:*

The Corporation’s accounting policy for taxation requires management’s judgment in assessing whether deferred tax assets are recognized on the statement of financial position. Deferred tax assets, including those arising from tax loss carry-forwards, capital losses and temporary differences are recognized only where it is considered probable that they will be recovered, which is dependent on the generation of sufficient future taxable profits. Assumptions about the generation of future taxable profits depend on management’s estimates of future cash flows. These depend on estimates of future production and sales volumes, mineral prices, reserves, operating costs, restoration and rehabilitation costs, capital expenditure, dividends and other capital management transactions.

Judgments are also required about the application of income tax legislation. These judgments and assumptions are subject to risk and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognized on the statement of financial position and the amount of other tax losses and temporary differences not yet recognized. In such circumstances, some or all of the carrying amount of recognized deferred tax assets and liabilities may require adjustment, resulting in a corresponding credit or charge to the statement of operations.

### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

a) Basis of consolidation

The consolidated financial statements are presented in USD and include the accounts of the Corporation and the following subsidiaries:

Company	Principal activity	Country of incorporation	Functional currency
Mexican Gold Holdings Corporation Incorporated	Holding company	Canada	CAD
North American Gold Holdings Corporation Incorporated	Holding company	Canada	CAD
Minera Durango Dorado S.A. de C.V. (‘MDD’)	Gold and silver exploration	Mexico	USD
Absolute Gold Holdings Incorporated	Holding company	Canada	CAD
AGHI Holdings Incorporated	Holding company	Canada	CAD
Grupo Coanzamex S.A. de C.V.	Gold and silver production	Mexico	USD
Coanzamex Servicios S.A. de C.V.	Gold and silver production	Mexico	USD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

Company	Principal activity	Country of incorporation	Functional currency
Servicios de Procesamiento Manufactura y Logística Coanzamex S.A. de C.V.	Gold and silver production	Mexico	USD
GoGold Resources Inc.	Corporate support	Canada	CAD

All subsidiaries are 100% owned. MDD's functional currency changed on August 15, 2019, as a result of the acquisition of the Los Ricos project (Note 8), for which expenditures are predominantly denominated in USD.

### i) Subsidiaries

Subsidiaries are entities over which the Corporation has the power to govern the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether a Corporation controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Corporation and cease to be consolidated from the date on which control is transferred out of the Corporation. A change in the ownership interest of a subsidiary that does not result in a loss of control is accounted for as an equity transaction.

### ii) Transactions eliminated on consolidation

Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

### b) Foreign currency

#### i) Foreign currency transactions

Transactions in currencies other than each entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

#### ii) Foreign operations

These consolidated financial statements are presented in USD. The results and financial position of all the Corporation's entities that have a functional currency different from the USD presentation currency are translated into the presentation currency as follows:

- assets and liabilities are translated at the closing rate at the date of the statement of financial position;
- foreign exchange gains and losses on intercompany loans that are considered part of the net investment in foreign subsidiaries and where repayment is neither planned nor expected to occur in the foreseeable future are not recorded in earnings, but are recognized within Accumulated Other Comprehensive Income ("AOCI");
- income and expenses for each income statement presented are translated at monthly average exchange rates; and
- all resulting exchange differences are recognized within AOCI which is a separate component of equity.

On the loss of control of a foreign operation, all the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Corporation are recognized in the income statement as part of the gain or loss on loss of control.

Fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in AOCI.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

---

### c) Financial instruments

The Corporation recognizes financial assets and financial liabilities on the date the Corporation becomes party to the contractual provisions of the instruments. A financial asset is derecognized either when the Corporation has transferred substantially all the risks and rewards of ownership of the financial assets or when cash flows expire. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

The Corporation classifies and measures financial assets and liabilities on initial recognition as described below:

- Cash and equivalents include cash, term deposits, treasury bills and money market investments with original maturities of less than 90 days and are classified as and measured at fair value through profit or loss.
- Trade receivables are classified as and measured at fair value through profit or loss using the effective interest method less any allowance for impairment.
- Marketable securities, including equity instruments, are designated as fair value through profit or loss and are recorded at fair value on settlement date, net of transaction costs. Subsequent to initial recognition, changes in fair value are recognized in income.
- Derivative financial instruments are recorded at fair value through profit or loss. Subsequent to initial recognition, changes in estimated fair value at each reporting date are recognized through profit or loss. The fair value of derivative financial instruments is based on forward rates considering the market price, rate of interest and volatility and takes into account the credit risk of the counterparty.
- Trade and other payables, term loans and long term debt are classified and measured at amortized cost. A financial liability is derecognized when the obligation specified in the contract is discharged, cancelled or expired.

### d) Exploration and evaluation assets

Pre-exploration expenditures are expensed as incurred.

All direct costs related to the acquisition and exploration of resource property interests are capitalized by property. Exploration and evaluation assets include expenditures on acquisition of rights to explore, studies, exploratory drilling, trenching, sampling, and other direct costs related to the exploration or evaluation of a project. General and administrative costs are only included in the measurement of exploration and evaluation costs where they are directly related to operational activities in a particular area of interest.

Exploration and evaluation assets are initially measured at cost and classified as tangible assets.

An impairment review of exploration and evaluation assets is performed, either individually or at the cash-generating unit level, when there are indicators that the carrying amount of the assets may exceed their recoverable amounts. To the extent that this occurs the excess is fully provided against, in the financial year in which this is determined. Exploration and evaluation assets are reassessed on a regular basis and these costs are carried forward provided that at least one of the conditions below is met:

- such costs are expected to be recouped in full through successful development and exploration of the area of interest or alternatively, by its sale; or
- exploration and evaluation activities in the area of interest have not yet reached a stage that permits a reasonable assessment of the existence or otherwise of economically recoverable reserves, and active and significant operations in relation to the area are continuing, or planned for the future.

Where a project is determined to be technically viable and commercially feasible and a decision has been made to proceed with development with respect to a particular area of interest, the relevant exploration and evaluation asset is tested for impairment and the balance is reclassified as a development asset in property, plant and equipment. A project is considered to be technically viable and commercially feasible when a full technical report is prepared, construction financing is arranged, and board approval to proceed with construction is obtained.



SILVER & GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

---

### e) Property, plant and equipment

#### *Recognition and measurement*

Land is stated at historical cost. All items of property, plant and equipment are measured at historical cost less accumulated amortization and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials, direct labour and capitalized interest and any other costs directly attributable to bringing the assets to working condition for their intended use.

#### *Subsequent costs*

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably.

The carrying amount of any replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in profit or loss as incurred.

#### *Amortization*

Amortization of plant and equipment is calculated using the straight-line method, or unit-of-production method if that is more reflective of the usage, to allocate their cost net of their residual values, over the shorter of their estimated useful lives and the life of mine. Amortization commences when the asset is fully constructed and available for use. Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted prospectively, if appropriate. Amortization categories and useful lives for items included in plant and equipment are as follows:

<b>Asset</b>	<b>Useful life</b>
Buildings & infrastructure	9 years
Office equipment	3 years
Other equipment	3 years
Process plant	Unit-of-production
Vehicles	4 years

#### *Development assets*

Development assets include costs transferred from exploration and evaluation assets once technical feasibility or commercial viability of an area of interest are demonstrable, and development assets also includes subsequent costs to develop the mine to the production phase. Once commercial production is achieved, development assets are reclassified to mining properties or plant and equipment.

#### *Mining Properties*

Mining properties include costs transferred from development assets once commercial production has been achieved for the area of interest, and mining properties also includes subsequent costs incurred in further developing the area of interest.

Depletion of mining properties is calculated on the basis of units of production and commences when the mine starts commercial production. Depletion is based on assessments of measured and indicated reserves and the portion of resources expected to be added to be reserves available to be mined by the current production equipment to the extent that such reserves are considered to be economically recoverable.

### f) Impairment of non-financial assets

The net carrying amounts of property and equipment are reviewed for impairment either individually or at the cash-generating unit level when events and changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Corporation estimates the recoverable amount of the cash-generating unit to which the asset belongs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

---

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

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount, and an impairment charge is recognized in profit or loss in the fiscal year in which this is determined. Where an impairment subsequently reverses, the carrying amount is increased to the revised estimate of recoverable amount, but so that the increased carrying amount does not exceed the carrying value that would have been determined if no impairment had previously been recognized. As a result, a reversal is recognized in profit or loss.

### g) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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 income tax is recognized in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. 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 income tax assets and deferred income tax liabilities of the same taxable entity are offset when they relate to taxes levied by the same taxation authority and the entity has a legally enforceable right to set off current tax assets against current tax liabilities. The principal temporary differences arise from amortization and depletion on property, plant and equipment, tax losses carried forward and fair value adjustments on assets acquired in business combinations.

### h) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments on the date of grant. Fair value is measured using the Black-Scholes pricing model. The fair value determined at the grant date of the equity-settled share-based payments is expensed as services are rendered over the vesting period, based on the Corporation's estimate of the shares that will eventually vest and adjusted for the effect of non-market-based vesting conditions. For share-based payment awards with non-market vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Equity-settled share-based payment transactions with parties other than employees and those providing similar services are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

### i) Earnings per share

The Corporation presents basic and diluted earnings per share data for its common shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Corporation by the weighted average number of





SILVER & GOLD

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

---

common shares outstanding during the period. Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential common shares. All share options are currently anti-dilutive. As a result basic and diluted earnings per share are the same.

### j) Reclamation liabilities

Provisions for environmental restoration are recognized when: (i) the Corporation has a present legal or constructive obligation as a result of past exploration, development or production events; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount has been reliably estimated. Provisions do not include any additional obligations which are expected to arise from future disturbance.

### k) Inventories

#### *Finished goods inventory*

Finished goods inventory consists of silver, gold, and copper precipitate or doré bars, and is valued at the lower of average cost and net realizable value.

#### *Ore in process inventory*

Ore in process inventory is measured at the lower of cost and net realizable value. The recovery of gold and silver is achieved through milling and heap leaching processes. Costs are added to ore on leach pads based on the current processing cost, including applicable overhead, depletion and amortization relating to mining and processing operations. Costs are removed from ore on leach pads as ounces are recovered, based on the average cost per recoverable ounce of gold and silver in ore in process inventory.

#### *Supplies inventory*

Supplies inventory consists of processing supplies and consumables used in the operation of the project, and is valued at the lower of average cost and net realizable value.

### l) Revenue recognition

Revenue from the sale of gold and silver contained in doré or precipitate is recognized when contracts with customers have been identified, performance obligations in the contract have been identified, transaction price is reasonably estimable, transaction price is allocated to the performance obligations in the contract, and performance obligation in the contract is satisfied. Generally, the performance obligations of the contract are met once shipments are received by the customer. Revenue is measured at the fair value of the consideration received or receivable and may be subject to adjustment once final weights and assays are determined. The Corporation has an off-take agreement for minimum quantities representing substantially all of the production of the Parral project whereby the selling price for gold and silver is based on the respective market prices for the commodities using the lowest quoted market price over a certain period of time prior to and following the respective transaction date. Management estimates that this agreement generally represents a 2% to 4% reduction in the realized price for gold and silver from spot market pricing, depending on the level of market price movements over that period.

## 4. ACCOUNTING CHANGES AND RECENT PRONOUNCEMENTS

### a) Accounting changes

The Corporation adopted the following accounting standards during the year:

#### *Leases (“IFRS 16”)*

In January 2016, the IASB issued IFRS 16, *Leases*. This standard specifies the methodology to recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. This standard replaces IAS 17,

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

*Leases.* On October 1, 2019, the Corporation adopted this standard, which resulted in an increase to property, plant and equipment assets of \$1,990 and a corresponding increase in leasing liabilities.

The following is a reconciliation of operating lease commitments as at September 30, 2019 under IAS 17 to the lease liability under IFRS 16 on October 1, 2019:

Operating lease commitments as disclosed on September 30, 2019	\$ 1,728
Additional lease commitments due to inclusion of renewals on October 1, 2019	1,000
Discount using the incremental borrowing rate at October 1, 2019	(738)
<u>Lease liability as at October 1, 2019</u>	<u>\$ 1,990</u>

As a result of the adoption of IFRS 16, the Corporation adopted the following accounting standard:

At the inception of a contract, the Corporation assesses whether a contract is or contains a lease based on whether the contract conveys the right to use an asset for a period of time in exchange for consideration. Contracts identified as leases are recognized as a right-of-use asset within property, plant and equipment and corresponding lease liability as an obligation on the statement of financial position on the commencement date of the lease.

The right-of-use asset is initially measured at cost comprising the amount of the initial measurement of the lease liability, any lease payments made before the commencement date, less any lease incentives received, any initial direct costs, and restoration costs expected to be incurred. The right-of-use asset is subsequently amortized on a straight-line basis over the lease-term. The corresponding lease liability is initially measured at the present value of lease payments that are not paid at the commencement date, discounted using the Corporation's incremental borrowing rate. Lease payments include any fixed payments, variable payments that are dependent on an index or a rate in effect at the time of commencement, amounts expected to be paid under residual value guarantees, and the exercise of a purchase option that are reasonably expected to be exercised. The lease liability is subsequently measured at amortized cost using the effective interest method.

The Corporation has elected to apply the following practical expedients in accounting for leases:

i) Separable components

The Corporation has elected not to separate non-lease components from lease components and to account for each lease component and associated non-lease component as a single lease component.

ii) Short-term and leases of assets of low-value

For each class of underlying asset, the Corporation has elected to recognize the exemption for leases with a term of 12-months or less. The recognition exemption for leases of assets of low-value has been applied on a lease-by-lease basis and is comprised of office equipment. Such items are charged to general and administrative expenses over the term of the agreement as payments are made.

b) Upcoming standards

The IASB issued the following standards that have not been applied in preparing these consolidated financial statements as their effective date falls within periods beginning subsequent to the current reporting period.

*IAS 1 – Presentation of Financial Statements*

On January 23, 2020, the IASB issued an amendment to IAS 1 *Presentation of Financial Statements* providing a more general approach to the classification of liabilities. The amendment clarifies that the classification of liabilities as current or non-current depends on the rights existing at the end of the reporting period as opposed to the expectations of exercising the right for settlement of the liability. The amendments further clarify that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty. The amendments are effective for annual periods beginning on or after January 1, 2023 and are to be applied retrospectively, with early adoption permitted. The Corporation is currently assessing the financial impact of the amendments and expects to apply the amendments at the effective date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

---

### *IAS 16 – Property, Plant and Equipment*

On May 14, 2020, the IASB issued an amendment to IAS 16 *Property, Plant and Equipment* to prohibit deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling such items, and the cost of producing those items are to be recognized in profit and loss. The amendments are effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The amendment is to be applied retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the earliest period presented in the financial statements in the year in which the amendments are first applied. The Corporation is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

### *IAS 37 – Provisions, Contingent Liabilities and Contingent Assets*

On May 14, 2020, the IASB issued an amendment to IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* to specify which costs an entity includes in determining the cost of fulfilling a contract for the purpose of assessing whether the contract is onerous. The amendment specifies that the cost of fulfilling a contract comprises the costs that relate directly to the contract. Costs that relate directly to the contract can either be incremental costs of fulfilling the contract or an allocation of other costs that relate directly to fulfilling contracts. The amendments are effective for contracts for which the Corporation has not yet fulfilled all its obligations on or after January 1, 2022 with early adoption permitted. The Corporation is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

### *IFRS 9 – Financial Instruments*

On May 14, 2020, the IASB issued an amendment to IFRS 9 *Financial Instruments* clarifying which fees to include in the test in assessing whether to derecognize a financial liability. Only those fees paid or received between the borrower and the lender, including fees paid or received by either the entity or the lender on the other's behalf are included. The amendment is effective for annual periods beginning on or after January 1, 2022 with early adoption permitted. The Corporation is currently assessing the financial impact of the amendment and expects to apply the amendment at the effective date.

## **5. MARKETABLE SECURITIES AND SALE OF ROYALTY**

On November 7, 2018, the Corporation closed the sale of a 2% net smelter royalty on the Santa Gertrudis project for \$12,000 to Metalla Royalty and Streaming Ltd (“Metalla”), of which \$6,000 was paid in cash and the balance was settled by 10,123,077 common shares of Metalla. Metalla is traded on the TSX-V Exchange under the symbol MTA. The market price on the closing date was CAD \$0.78 per common share for a total value of \$6,000 which, after transaction costs of \$163, resulted in net proceeds and an equivalent pre-tax gain of \$11,837, of which the cash portion was \$5,837. The Metalla shares were subject to a four month hold period, which expired on March 7, 2019.

The Corporation recognized a gain on the fair market value of marketable securities of \$280 (2019 - \$3,215) and net proceeds on sale of marketable securities of \$5,041 (2019 - \$4,582) during the year ended September 30, 2020. The Corporation was fully divested of all Metalla shares on December 18, 2019. At September 30, 2019, the Corporation held 4,761,500 Metalla shares and the market price was CAD \$1.32 per share.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

### 6. INVENTORIES

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
<b>Current:</b>		
Supplies inventory	\$ 1,169	\$ 1,341
In process inventory	7,408	6,854
Finished goods inventory	628	357
	<u>9,205</u>	<u>8,552</u>
<b>Long term:</b>		
In process inventory	16,867	18,251
	<u>\$ 26,072</u>	<u>\$ 26,803</u>

The amount of inventory included in cost of sales was \$30,597 (2019 – \$26,682). An assessment of the net realizable value of in process inventory was completed, and no adjustments were required, at September 30, 2020. This assessment was completed for the year ended September 30, 2019 and resulted in a reduction of inventory carrying value of \$1,489, which included adjustments to amortization and depletion of \$242.

### 7. PROPERTY, PLANT AND EQUIPMENT

<b>Cost</b>	<u>Plant &amp; Equipment</u>	<u>Mining Properties</u>	<u>Total</u>
October 1, 2018	\$ 46,165	\$ 57,317	\$ 103,482
Additions	1,780	393	2,173
Reclamation obligation adjustments	-	(150)	(150)
Foreign exchange adjustments	(5)	-	(5)
At September 30, 2019	47,940	57,560	105,500
IFRS 16 – Leases adoption (Note 4)	109	1,881	1,990
Additions	1,833	38	1,871
Reclamation obligation adjustments	-	134	134
<b>At September 30, 2020</b>	<u>\$ 49,882</u>	<u>\$ 59,613</u>	<u>\$ 109,495</u>

<b>Accumulated Amortization and Impairment</b>	<u>Plant &amp; Equipment</u>	<u>Mining Properties</u>	<u>Total</u>
At October 1, 2018	\$ 22,870	\$ 54,318	\$ 77,188
Amortization and depletion	3,610	81	3,691
Foreign exchange adjustments	(4)	-	(4)
At September 30, 2019	26,476	54,399	80,875
Amortization and depletion	3,394	270	3,664
Impairment reversal (Note 12)	(5,910)	(35,175)	(41,085)
<b>At September 30, 2020</b>	<u>\$ 23,960</u>	<u>\$ 19,494</u>	<u>\$ 43,454</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

Net Carrying Value	Plant & Equipment	Mining Properties	Total
At September 30, 2019	\$ 21,464	\$ 3,161	\$ 24,625
<b>At September 30, 2020</b>	<b>\$ 25,922</b>	<b>\$ 40,119</b>	<b>\$ 66,041</b>

For the year ended September 30, 2020, amortization and depletion expense include amounts of \$30 (2019 - \$1,994) which were previously included in in process inventory. Trade and other payables at September 30, 2020 include \$Nil related to property, plant and equipment (September 30, 2019 - \$366). Disclosures related to right of use assets are shown in the following table:

Right of Use Assets	Plant & Equipment	Mining Properties	Total
Net Carrying Value – September 30, 2020	\$ 76	\$ 1,694	\$ 1,771
Net Carrying Value – September 30, 2019	-	-	-
Amortization and depletion expensed	33	186	219

### 8. EXPLORATION AND EVALUATION ASSETS

#### a) Acquisitions

##### *Year ended September 30, 2019*

On March 25, 2019, the Corporation acquired the rights to an agreement which provided the option to acquire 100% of the concessions of the Los Ricos project (the “Option Agreement”). Los Ricos is comprised of 29 concessions located in Jalisco state, Mexico. As consideration, the Corporation made a cash payment of \$523 on April 1, 2019, and monthly payments totaling \$60. Expenditures for exploration activities on the project prior to acquisition of the Option Agreement totalling \$459 were expensed, as the Corporation did not hold the legal rights to the concessions.

On August 15, 2019, the Corporation acquired the 29 concessions and terminated the Option Agreement through various agreements (the “Concession Agreements”). Consideration for the Concession Agreements consisted of \$500 in cash upon signing, \$3,220 which is non-interest bearing and payable in monthly instalments over 24 months beginning on September 15, 2019, and 9,046,968 common shares of the Corporation to be delivered in equal instalments over 24 months beginning on September 15, 2019.

In addition to the Concession Agreements, the Corporation acquired the existing 2% net smelter return royalty, through an agreement (the “NSR Agreement”), on the Los Ricos project for cash consideration of \$1,000, which is non-interest bearing and paid in equal instalments over 36 months beginning September 15, 2019, and 4,875,012 common shares of the Corporation to be delivered in equal instalments over 18 months beginning on September 15, 2019.

All common shares for the Concession Agreements and NSR Agreement were issued on August 15, 2019 in the name of the vendors and were held in escrow for benefit of the vendor and will be released to the vendors in line with the instalment schedule discussed above. The closing share price on that date was CAD \$0.52 and the CAD:USD exchange rate was 1.331, providing a total share consideration value of \$5,439.

##### *Year ended September 30, 2020*

As part of the Corporation’s ongoing program of consolidation of concessions within the Los Ricos project’s mineral trend, an additional concession was acquired on the Los Ricos project on November 21, 2019 for cash consideration of \$361. On April 7, 2020, the Corporation entered into an agreement to acquire ownership of 49% of 5 additional concessions from an arm’s length seller for cash consideration of \$225. The Corporation also acquired an option to acquire the remaining 51% by paying cash consideration of \$210 on February 18, 2022, with an acceleration provision available to the Corporation by providing 180 days notice or 60 days notice should certain objectives be completed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

A summary of the additions to the Los Ricos project for the years ended September 30, 2020 and September 30, 2019 are as follows:

	<u>Cash-Settled Consideration</u>	<u>Share-Settled Consideration</u>	<u>Total Consideration</u>
At October 1, 2018	\$ -	\$ -	\$ -
Option Agreement	583	-	583
Concession Agreements	3,585	3,534	7,119
NSR Agreement	931	1,905	2,836
Drilling and exploration	1,817	-	1,817
At September 30, 2019	<u>\$ 6,916</u>	<u>\$ 5,439</u>	<u>\$ 12,355</u>
Concession requirements and acquisitions	1,297	-	1,297
Drilling, exploration and consulting	7,568	719	8,287
<b>At September 30, 2020</b>	<b><u>\$ 15,781</u></b>	<b><u>\$ 6,158</u></b>	<b><u>\$ 21,939</u></b>

Cash-settled consideration includes amounts capitalized to exploration and evaluation assets which have been or will be settled in cash, while share-settled consideration includes amounts which are settled by the issuance of common shares of the Corporation. Cash-settled consideration includes \$557 (2019 - \$372) in trade and other payables at September 30, 2020.

### b) Commitments

On October 4, 2019, the Corporation entered into agreements with external consultants to act as a liaison with local concession holders in the Corporation's ongoing program of consolidation of concessions along the Los Ricos project's mineral trend. In addition, the consultants provide environmental services, community relations, and aide in surface rights negotiations. As consideration for these services, the Corporation made a payment of \$160 on signing, and is making payments of 81,250 common shares and \$25 per month for four years, contingent on the consultants providing the agreed upon services.

During the year, the Corporation entered into option agreements for an additional 7 concessions within the Los Ricos project for total cash consideration of \$1,454 and common shares issuable of 250,000. As of September 30, 2020, \$163 has been paid and capitalized to the project to date, see Note 18 for details regarding the timing of payments. During the term of the option agreements the Corporation has exclusive exploration and drilling rights on the concessions, and the Corporation has the right to terminate the agreements at any point with no further payment. The rights to the concessions transfer to the Corporation after completion of payments of the option agreement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

### 9. LONG TERM OBLIGATIONS

Details of the payments during the year, accretion, foreign exchange, remaining long term obligations at September 30, 2020 along with the total annual payments are provided below:

	<i>Concession &amp; NSR</i>		<i>Leases</i>		<i>Total</i>	
	<b>Principal</b>	<b>Discounted Amount</b>	<b>Principal</b>	<b>Discounted Amount</b>	<b>Principal</b>	<b>Discounted Amount</b>
At October 1, 2019	\$ 4,079	\$ 3,875	\$ -	\$ -	\$ 4,079	\$ 3,875
IFRS 16 adoption – Note 4(a)	-	-	2,728	1,990	2,728	1,990
Principal paid	(2,193)	(2,193)	(437)	(437)	(2,630)	(2,630)
Accretion	-	142	-	137	-	279
Foreign exchange	-	-	(12)	-	(12)	-
<b>At September 30, 2020</b>	<b>\$ 1,886</b>	<b>\$ 1,824</b>	<b>\$ 2,279</b>	<b>\$ 1,690</b>	<b>\$ 4,165</b>	<b>\$ 3,514</b>
<b>Current:</b>						
September 30, 2021	\$ 1,580	\$ 1,526	\$ 435	\$ 426	\$ 2,015	\$ 1,952
<b>Long term:</b>						
September 30, 2022	306	298	435	374	741	672
September 30, 2023	-	-	409	334	409	334
Subsequent to September 30, 2025	-	-	1,000	556	1,000	556
	306	298	1,844	1,264	2,150	1,562
<b>Total</b>	<b>\$ 1,886</b>	<b>\$ 1,824</b>	<b>\$ 2,279</b>	<b>\$ 1,690</b>	<b>\$ 4,165</b>	<b>\$ 3,514</b>

#### (a) Concession Agreement and NSR Agreement

The remaining obligations related to the Concession Agreements and NSR Agreement, as per the details in Note 7, are recorded at the discounted amount based on estimated timing of payment and are being accreted to the principal amount over the estimated term using the effective interest method with an effective average interest rate of 5%. The Los Ricos concessions have been pledged as security for the remaining obligations.

#### (b) Lease obligations

Upon adoption of IFRS 16 – Leases, as per Note 4, the Corporation recorded an obligation for the land lease for the Parral project, which provides the Corporation the use of the land where the Parral heap leach and processing facilities are located until February 2028, with the Corporation's option to extend until February 2033, which the Corporation intends to exercise. Annual payments of \$400 are required to be made until 2023, with an additional \$500 per year to be paid in 2028 and 2029 to extend the lease until February 2033. The lease is non-interest bearing and discounted using the effective interest method with an effective average interest rate of 5%. There are no restrictions or covenants included in the land lease.

The Corporation also recorded a lease obligation for the rental of the corporate office in Halifax, which is an annual obligation of \$39, paid monthly, until 2022, which is non-interest bearing and discounted using the effective interest method with an effective average interest rate of 5%. There are no restrictions or covenants included in the office lease.

The Corporation had no short-term leases nor low-value leased assets in the year ending September 30, 2020.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

### 10. PROVISION FOR SITE RESTORATION

The Corporation has recorded a provision for site restoration related to the Parral project based on management's best estimate of the future cash flows associated with restoration obligations at the end of the project's life. The total undiscounted amount of estimated cash flows required to settle the obligation is \$1,839 (2019 - \$2,065). The cash flows have been inflated at an annual rate of 4.0% (2019 - 3.0%), and discounted using a pre-tax risk-free rate of 6.1% (2019 - 6.9%).

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
Provision, beginning of year	\$ 1,348	\$ 1,452
Accretion expense	93	115
Foreign exchange	(141)	(70)
Inflation and discount rate	198	(231)
Revision to estimate	(64)	82
<b>Provision, end of year</b>	<b>\$ 1,434</b>	<b>\$ 1,348</b>

### 11. SHARE CAPITAL

#### (a) Authorized

An unlimited number of common shares, without nominal or par value.

#### (b) Issued

The following table summarizes the changes in issued common shares of the Corporation:

	Shares	Value
Balance October 1, 2018	171,776,481	142,465
Shares issued on exercise of DSUs	125,000	24
Shares issued, net of issuance costs	13,921,980	5,425
Balance September 30, 2019	185,823,461	147,914
Shares issued for Feb. 25 bought deal, net of issuance costs	35,714,285	15,129
Shares issued for Sept. 18 bought deal, net of issuance costs	23,000,000	24,290
Shares issued to consultants	1,056,250	719
Shares issued on exercise of warrants	17,839,592	13,690
Shares issued on exercise of options	733,200	614
<b>Balance September 30, 2020</b>	<b>264,166,788</b>	<b>\$ 202,356</b>

On August 15, 2019, 13,921,980 shares were issued, valued at CAD \$0.52, for total consideration after transaction costs of \$5,425 in exchange for the Concession Agreements and NSR Agreement as discussed in Note 8. At September 30, 2020, 5,500,697 (2019 - 13,274,189) of these shares were held in escrow for benefit of the vendor and will be released to the vendors in line with the instalment schedule discussed in Note 8.

On February 25, 2020, the Corporation closed a bought deal whereby a syndicate of underwriters purchased 35,714,285 units at a price of \$0.70 CAD per unit, with each unit consisting of one common share of the Corporation and one half-warrant. The common shares were valued at \$0.62 CAD per share and the half-warrants were valued at \$0.08 CAD using a binomial model, the details of which are provided in section (e) below. The net proceeds for the equity financing were \$17,244 while the net



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

proceeds attributed to the common shares, after share issuance costs of \$1,571, were \$15,129 and the proceeds allocated to the warrants was \$2,112.

On September 18, 2020, the Corporation closed a bought deal whereby a syndicate of underwriters purchased 23,000,000 common shares at a price of \$1.50 CAD per share for net proceeds of \$24,290 after share issuance costs of \$1,847.

During the year, the Corporation issued 1,056,250 common shares valued at \$719 to consultants in exchange for services received related to the Los Ricos project, see Note 8.

(c) Incentive stock options

The Corporation has a rolling 10% incentive stock option plan (the “Plan”) under which options to purchase common shares of the Corporation may be granted to directors, officers, employees and consultants of the Corporation. The number of common shares subject to options granted under the Plan is limited to 10% of the issued and outstanding common shares of the Corporation and no one person may receive in excess of 5% of the outstanding common shares of the Corporation at the time of grant (on a non-diluted basis).

Under the Plan, the terms and conditions of each grant of options are determined by the Board of Directors. Options are granted at a price no lower than the market price of the common shares as defined in the Plan which is the five day weighted average of the Corporation’s common shares prior to the date of grant rounded up to the nearest cent. Options granted under the Plan typically vest over a three year period, although the vesting period is at the Board of Directors’ discretion.

The changes in incentive stock options during the years ended September 30, 2020 and 2019 were as follows:

	<b>September 30, 2020</b>		<b>September 30, 2019</b>	
	Number of incentive options	Weighted average exercise price	Number of incentive options	Weighted average exercise price
Opening balance	7,675,000	CAD \$ 0.55	4,365,000	CAD \$ 0.96
Granted	3,150,000	0.70	4,225,000	0.28
Exercised	(733,200)	0.80	-	-
Expired	-	-	(915,000)	1.28
Closing balance	<u>10,091,800</u>	<u>CAD \$ 0.58</u>	<u>7,675,000</u>	<u>CAD \$ 0.55</u>
Exercisable	<u>3,790,000</u>	<u>CAD \$ 0.70</u>	<u>2,506,667</u>	<u>CAD \$ 1.00</u>

The average market price per common share on the day of exercise during the year ended September 30, 2020 was CAD \$1.44.

The following table summarizes information concerning outstanding and exercisable incentive stock options at September 30, 2020:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

Expiry date	Outstanding		Exercisable	
	Number of options	Exercise price (CAD \$)	Number of options	Exercise price (CAD \$)
December 23, 2020	1,375,000	1.20	1,375,000	1.20
March 27, 2022	530,000	0.75	530,000	0.75
March 27, 2023	878,467	0.45	543,333	0.45
December 28, 2023	2,983,333	0.22	950,000	0.22
March 29, 2024	825,000	0.40	275,000	0.40
June 21, 2024	300,000	0.45	100,000	0.45
August 27, 2024	50,000	0.70	16,667	0.70
December 23, 2024	3,150,000	0.70	-	-
	<u>10,091,800</u>	<u>CAD \$ 0.58</u>	<u>3,790,000</u>	<u>CAD \$ 0.70</u>

The compensation cost for the incentive stock options granted during the years ended September 30, 2020 and September 30, 2019 were determined based on the fair value of the options at the date of grant using the Black-Scholes option pricing model with the following assumptions:

Option grant date	Dec. 23, 2019	Aug. 27, 2019	Jun. 21, 2019	Mar. 29, 2019	Dec. 28, 2018
Options granted	3,150,000	50,000	300,000	825,000	3,050,000
Exercise price	CAD \$ 0.70	CAD \$ 0.70	CAD \$ 0.45	CAD \$ 0.40	CAD \$ 0.22
Risk-free rate	1.65%	1.17%	1.40%	1.52%	1.93%
Expected volatility of share price	61%	60%	59%	56%	56%
Expected dividend yield	0.00%	0.00%	0.00%	0.00%	0.00%
Expected life of each option	5 years	5 years	5 years	5 years	5 years
Weighted average grant date fair value	CAD \$ 0.31	CAD \$ 0.30	CAD \$ 0.19	CAD \$ 0.16	CAD \$ 0.10

The expected volatility was determined based on the historical share price volatility from the date of the grant over a period of time equal to the expected life of the option. The expected forfeiture rate for all grants was nil.

#### (d) Deferred share units

The Corporation has a deferred share unit (“DSU”) plan as an alternative form of compensation for employees, officers, and directors of the Corporation. Each DSU entitles the participant to receive one common share of the Corporation issued from treasury upon redemption. The maximum number of common shares that are issuable under the DSU plan is 6,500,000. DSUs typically vest over a 3-year period from grant date, although the vesting period is at the Board of Directors’ discretion.

The changes in DSUs for the year ended September 30, 2019 and September 30, 2018 were as follows:

	Sept. 30, 2020	Sept. 30, 2019
Opening balance	2,025,000	475,000
Granted	1,825,000	1,675,000
Exercised	-	(125,000)
Closing balance	<u>3,850,000</u>	<u>2,025,000</u>
Exercisable	<u>825,000</u>	<u>150,000</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

Following is a summary of the DSUs outstanding at September 30, 2020:

Grant date	Number of DSUs	Market price at grant date	Compensation cost over 3-year vesting term	Unrecognized portion of compensation cost
March 27, 2018	450,000	CAD \$ 0.425	\$ 149	\$ 8
December 28, 2018	1,450,000	0.215	251	42
June 21, 2019	100,000	0.395	29	9
August 27, 2019	25,000	0.620	12	5
December 23, 2019	1,825,000	0.630	855	457
	<u>3,850,000</u>	<u>CAD \$ 0.444</u>	<u>\$ 1,296</u>	<u>\$ 521</u>

The Corporation has recorded total stock based compensation during the year ended September 30, 2020 of \$1,073 (2019 - \$466).

### (e) Warrants

In connection with the bought deal which closed on February 25, 2020 discussed in section (b) above, the Corporation issued 17,857,143 warrants which entitled the holder to acquire one common share of the Corporation at a price of CAD\$0.85 and expire on February 25, 2022. The warrants had a trigger (the "Acceleration Trigger") where if the weighted average price of the common shares of the Corporation exceeded CAD\$1.20 for a period of 10 consecutive trading days the Corporation could, at its option, elect to accelerate the expiry of the warrants by providing notice to the holders, in which case the warrants would expire on the date specified in the notice which shall not be less than 30 calendar days following delivery of such notice. On July 22, 2020, the Corporation determined that an Acceleration Trigger had occurred, and the warrant expiration date was accelerated to August 31, 2020.

The amount of proceeds from the bought deal allocated to the warrants and recorded in contributed surplus was \$2,112 based on an estimate of fair value using a binomial model. The fair value of the warrants at the date of grant was calculated using the following assumptions:

Warrant grant date	<u>Feb. 25, 2020</u>
Warrants granted	17,857,143
Exercise price	CAD \$ 0.85
Expected volatility of share price	64%
Expected dividend yield	0.00%
Expected life of each warrant	2 years
Weighted average grant date fair value	CAD \$ 0.157

In the year ended September 30, 2020, 17,839,592 warrants were exercised for proceeds of \$11,580, and \$2,110 initially allocated to contributed surplus was transferred to share capital. The remaining 17,551 warrants expired, and there were no warrants outstanding at September 30, 2020.

### (f) Net income per share

Basic net income per share is calculated based on the weighted average number of shares outstanding during the year. Diluted net income per share is based on the assumption that stock options and DSUs have been exercised on the later of the beginning of the period and the date granted. As of September 30, 2020, 1,375,000 options (2019 – 4,625,000) were excluded from the computation of diluted net income per share because their effect would have been anti-dilutive. Following is a reconciliation from the weighted average number of shares outstanding to the diluted weighted average number of shares outstanding:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

	<b>Sept. 30 2020</b>	Sept. 30 2019
Weighted average number of shares outstanding	209,603,152	173,566,648
Weighted average DSUs outstanding	3,435,000	2,025,000
Weighted average in-the-money options outstanding	<u>4,025,797</u>	<u>1,158,480</u>
Diluted weighted average number of shares outstanding	<u>217,063,949</u>	<u>176,750,128</u>

### 12. INCOME TAXES

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and (liabilities) are presented below:

	<b>Year ended September 30, 2020</b>	<b>Year ended September 30, 2019</b>
Resource properties	\$ (5,653)	\$ (1,014)
Non-capital loss carryforwards	12,224	8,156
Share issuance costs	-	51
Marketable securities	-	(301)
Inventory	(7,515)	(7,610)
Trade and other payables	<u>944</u>	<u>718</u>
	<u>\$ -</u>	<u>\$ -</u>

The net change in deferred income taxes is reflected as nil deferred income tax expense (2019 – \$1,890).

Non-capital losses totaling \$20,190 (2019 - \$35,828) and Trade and Other Payables of \$77 (2019 - \$Nil) have not been recognized in the consolidated financial statements. The non-capital losses noted above expire from 2022 to 2040.

Income taxes vary from the amount that would be computed by applying the basic Federal and Provincial tax rate of 30.0% (2019 – 31.0%) to income (loss) before taxes as follows:

	<b>Year ended September 30, 2020</b>	<b>Year ended September 30, 2019</b>
Income before income taxes	<u>\$ 43,148</u>	<u>\$ 10,004</u>
Computed expected expense	\$ 12,944	\$ 3,101
Foreign tax rate differential	-	(37)
Permanent differences	(11,781)	(1,658)
Effect of foreign exchange	(823)	632
Change in unrecognized temporary differences	<u>(340)</u>	<u>(148)</u>
Recorded income tax expense	<u>\$ -</u>	<u>\$ 1,890</u>

### 13. IMPAIRMENT REVERSAL

In accordance with the Corporation's accounting policy, non-current assets are reviewed at each reporting date to determine whether there are any indicators of impairment. An impairment loss is recognized when the carrying amount exceeds the recoverable amount. Non-current assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

At September 30, 2018, the Corporation determined that negative cash flows and operational performance being less than original expectations from the Parral project constituted an indication of potential impairment. Therefore, the Corporation completed an impairment assessment for the Parral project whereby the net book value was compared to its recoverable amount. The recoverable amount was determined as the fair value less costs of disposal, which was determined using a discounted future cash flow valuation model. As a result of the impairment assessment the Corporation recognized a non-cash impairment loss of \$48,157 on non-current assets.

At September 30, 2019, there were no indicators of impairment, nor impairment reversal.

At September 30, 2020, the Corporation determined that increased positive cash flows and operational performance at the Parral project, along with an increase in metal prices constituted indicators that the previously recorded impairment at Parral may no longer exist. Therefore, the Corporation completed an assessment for the Parral project whereby the recoverable amount at September 30, 2020 was determined as the value in-use, which was determined using a discounted future cash flow valuation model. The carrying amount of Parral's assets was then increased to the net book value that would have been determined had no impairment loss been recognized for the asset on September 30, 2018. As a result of the assessment the Corporation determined the recoverable amount of Parral was \$127,700 which exceeded the carrying value plus the previously recorded impairment of \$48,157. Had the impairment not been recorded, the Corporation would have recorded amortization and depletion on those assets of \$7,072 from September 30, 2018 to September 30, 2020. As a result, the Corporation recognized a non-cash reversal of impairment \$41,085 on non-current assets, with an allocation of \$35,175 to mineral properties and \$5,910 to plant and equipment, at September 30, 2020.

The discounted future cash flow valuation model used in estimating the recoverable amount involves significant estimates and assumptions for metal prices, production costs estimates, future capital expenditures to maintain capacity, changes in the amount of recoverable reserves, resources, discount rates, inflation and exchange rates. The determination of fair value at September 30, 2020 included the following key applicable assumptions:

- Silver price per ounce of approximately \$22 for 2021 to 2024 and \$20 beyond
- Gold price per ounce of approximately \$1,764 for 2021 to 2024 and \$1,550 beyond
- Operating and capital costs based on historical costs incurred and estimated forecasts
- Stacking rates and recoveries based on historical rates and estimated forecasts
- After-tax discount rate of 7%

#### 14. SUPPLEMENTAL CASH FLOW INFORMATION

Change in non-cash operating working capital:

	<b>Year ended September 30, 2020</b>	<b>Year ended September 30, 2019</b>
Trade receivables	\$ (1,496)	\$ (2,956)
Input tax recoverable	(2,250)	(1,575)
Prepaid expenses	(97)	-
Inventory	703	(11,963)
Trade and other payables	339	1,656
	<b>\$ (2,801)</b>	<b>\$ (14,838)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

### 15. RELATED PARTY TRANSACTIONS

Compensation to directors and officers of the Corporation:

	<u>Year ended September 30, 2020</u>	<u>Year ended September 30, 2019</u>
Directors' fees	\$ 197	\$ 265
Share-based expense for directors	364	148
Key management short-term benefits	1,223	1,301
Share-based expense for key management	397	229

Non-director or officer compensation expense of \$2,398 (2019 - \$1,657) is included in production costs for the year.

### 16. SEGMENTED INFORMATION

The Corporation's reportable segments are consistent with the Corporation's geographic regions in which the Corporation operates. In determining the Corporation's segment structure, the Corporation considered the basis on which management reviews the financial and operational performance and whether any of the Corporation's mining operations share similar economic, operational and regulatory characteristics. The Corporation considers the Parral project and the Los Ricos project as the Mexico segment, and the Corporation's corporate offices as the Canadian segment.

The following table presents information about reportable segments:

	<u>Mexico</u>	<u>Canada</u>	<u>Total</u>
For the year ended September 30, 2020:			
Revenue	\$ 39,548	\$ -	\$ 39,548
Amortization and depletion	3,694	-	3,694
Impairment reversal	41,085	-	41,085
Interest and dividend income	9	67	76
Finance costs	403	11	414
Segment net (loss) income	46,792	(3,644)	43,148
<u>Expenditures on non-current assets</u>	<u>10,916</u>	<u>-</u>	<u>10,916</u>
For the year ended September 30, 2019:			
Revenue	\$ 26,972	\$ -	\$ 26,972
Amortization and depletion	5,685	-	5,685
Interest and dividend income	194	145	339
Finance costs	247	5	252
Segment net (loss) income	(3,653)	11,767	8,114
<u>Expenditures on non-current assets</u>	<u>4,501</u>	<u>-</u>	<u>4,501</u>
Reportable segment assets (September 30, 2020)	\$ 132,161	\$ 50,938	\$ 183,099
Reportable segment liabilities (September 30, 2020)	11,150	1,120	12,270
<hr/>			
Reportable segment assets (September 30, 2019)	\$ 78,563	\$ 6,179	\$ 84,742
Reportable segment liabilities (September 30, 2019)	11,103	828	11,931

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

### 17. FINANCIAL INSTRUMENTS

(a) Fair value of financial instruments:

The following table provides the disclosures of the fair value and the level in the hierarchy for financial instruments valued at fair value through profit or loss on a recurring basis.

	<b>September 30, 2020</b>		<b>September 30, 2019</b>	
	Level 1	Level 2	Level 1	Level 2
Marketable securities	-	-	\$ 4,747	-
Long-term obligations	-	\$ 3,386	-	\$ 3,875
Provision for site restoration	-	1,434	-	1,348
Derivative liabilities	-	1,198	-	549

For derivative contracts, the Corporation performs valuations internally and calculates a debt valuation adjustment or a credit valuation adjustment by considering the risk of nonperformance by the counterparties and the Corporation's own credit risk. Valuations are based on forward rates considering the market price, rate of interest and volatility, and take into account the credit risk of the financial instrument, and are therefore classified within Level 2 of the fair value hierarchy.

(b) Capital management:

The Corporation's objective when managing capital is to maintain adequate levels of funding to support the acquisition, exploration and operation of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. These activities are primarily funded through operations, equity financing and debt. Future financings are dependent on market conditions and there can be no assurance the Corporation will be able to raise funds in the future, should the need arise. The Corporation invests all capital that is surplus to its immediate operational needs in high interest savings accounts.

The capital of the Corporation consists of items included in shareholders' equity and debt, net of cash as follows:

	<b>September 30, 2020</b>	<b>September 30, 2019</b>
Shareholders' equity	\$ 170,829	\$ 72,811
Less: cash	(52,626)	(2,408)
	<u>\$ 118,203</u>	<u>\$ 70,403</u>

(c) Financial risks:

The Corporation's financial risk exposures and the impact on the Corporation's financial instruments are summarized below:

*Commodity price risk*

The profitability of the Corporation's mining operations will be significantly affected by changes in the market price for silver, gold and copper ("Metal"). Metal prices fluctuate on a daily basis and are affected by numerous factors beyond the Corporation's control. The supply and demand for Metal, the level of interest rates, the rate of inflation, investment decisions by large holders of Metal, including governmental reserves, and the stability of exchange rates can all cause significant fluctuations in Metal prices. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems, and political developments.

*Credit Risk*

The Corporation's credit risk is primarily attributable to cash, input tax recoverable and trade receivables. Input tax recoverable consists of harmonized sales tax due from the Federal Government of Canada of \$93 and value added tax ("VAT") receivable from the Federal Government of Mexico of \$11,274. Timing of collection on VAT receivables is uncertain as VAT refund procedures require a significant amount of information and follow-up. The Corporation assesses the recoverability of the

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

---

amounts receivable at each reporting date. Changes in these estimates can materially affect the amount recognized as VAT receivable and could result in a change in net income. As at September 30, 2020, the Corporation determined the full balance to be recoverable. Significant judgment is required to determine the presentation of current and non-current input tax recoverable. Exposure on trade receivables is limited as all receivables are with one customer who the Corporation has strong working relationships with and is a reputable large international company with a history of timely payment. Management believes the risk of loss with respect to financial instruments consisting of cash, input tax recoverable and trade receivables to be low.

### *Foreign Currency Risk*

The Corporation's major purchases are transacted in Canadian dollars, US dollars, and Mexican Pesos. The Corporation funds certain operations, exploration and administrative expenses in Mexico using US dollar and Mexican Peso currency converted from its Canadian and US dollar bank accounts held in Canada. As GoGold Resources Inc., the parent corporation, has a functional currency of Canadian dollars, net liabilities held in US dollars are affected by foreign exchange fluctuations and will affect the Corporation's net income. At September 30, 2020, GoGold Resources Inc. had net monetary assets in US dollars of \$11,093 (September 30, 2019 – \$81), for which a 10% change in US exchange rates would change net income by approximately \$1,093. At September 30, 2020, the Corporation had net monetary assets in Mexican Pesos of approximately \$9,115 (September 30, 2019 – \$4,868), for which a 10% change in Mexican Peso exchange rates would change net income by approximately \$912.

### *Interest Rate Risk*

The Corporation has cash balances and the current policy is to invest excess cash in Canadian bank high interest savings accounts, with excess cash held in CAD, USD, or MXN based on future spending requirements and consensus foreign exchange estimates. The Corporation has no interest bearing liabilities.

### *Liquidity Risk*

The Corporation's general objective when managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2020, the Corporation had cash balances of \$52,626, current input tax recoverable of \$6,842, and trade receivables of \$4,768 for settling current liabilities of \$8,036, liquidity is expected to be sufficient to fund the operations of the Corporation for the next twelve months.

### *COVID-19 Risk*

On March 11, 2020, the outbreak of the novel strain of coronavirus, specifically identified as "COVID-19", was classified as a global pandemic, which has resulted in governments 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 and capital markets have also experienced significant volatility and weakness. The governments have reacted with significant monetary and fiscal interventions designed to stabilize economic conditions. The duration and impact of the COVID-19 pandemic is unknown at this time, as is the efficacy of the government's interventions.

In March 2020, the Corporation implemented procedures including employee education, monitoring of symptoms, and increased sanitization, as well as employees working remotely when possible. On April 2, 2020, the Mexican federal government mandated all non-essential businesses temporarily suspend activities due to COVID-19. As Parral is a heap leach operation, essential processes including operation of pumps to maintain solution balance continued, while non-essential services were temporarily suspended in line with the government mandate. At the Los Ricos project, drilling was temporarily suspended to ensure the safety of the Corporation's employees and contractors in compliance with the government's mandate.

On June 3, 2020, the Mexican federal government decreed that mining had been deemed an essential service, and the Corporation resumed drilling at Los Ricos and returned to full operation at Parral. The temporary suspension did not have a significant impact on either project.

However, the duration of the outbreak and economic impacts are uncertain and there may be impacts in the future on the Corporation's operations, supply chain, and cash flows, the Corporation's ability to raise financing or the pricing of such financing. The Corporation's key suppliers could be affected by the pandemic, which could affect production levels, exploration results, and costs, among others. Impacts on the Corporation's operations and cash flows could be significant



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the years ended September 30, 2020 and 2019

(in thousands of United States dollars unless otherwise stated)

should the COVID-19 pandemic require the Corporation to cease all operations at both Parral and Los Ricos for an unknown time period. The Corporation is well positioned to endure an operation shutdown for an extended time period given the current financial, which includes cash of \$52,626, which well exceeds liabilities of \$12,270 at September 30, 2020.

(d) Derivatives:

The Corporation, through its subsidiary Coanzamex, has an agreement with the Municipality of Parral, Mexico (“Town”) to mine and process tailings material for precious metal recovery. The Corporation makes payments of \$48 per month to the Town which increases based on the average market silver price, with payments continuing until tailings are completely mined. As the monthly royalty payment increases based on the average market silver price, from a minimum of \$48 per month to a maximum of \$88 per month, this obligation is accounted for as an embedded derivative liability. The fair value of the liability has been accounted for using a Monte Carlo simulation based on the spot price of silver at September 30, 2020 of \$23.73 (September 30, 2019 - \$17.26), as well as the historical volatility of silver market prices. The fair value of the liability under this method at September 30, 2020 was \$1,198 (September 30, 2019 - \$549).

### 18. COMMITMENTS

The Corporation has the following minimum annual commitments for the next five years:

Description	2021	2022	2023	2024	2025
Minimum royalty and land payments – Parral (Note 17(d))	\$ 570	\$ 570	\$ 570	\$ 570	\$ 570
Los Ricos option payments (Note 8)	220	555	275	300	150
Los Ricos consulting payments (Note 8)	300	300	300	25	-
	<u>\$ 1,090</u>	<u>\$ 1,425</u>	<u>\$ 1,145</u>	<u>\$ 895</u>	<u>\$ 720</u>