



SUPERIOR  
GOLD INC.

**Condensed Consolidated  
Interim Financial Statements**

June 30, 2019

(Unaudited - Expressed in thousands of United States dollars)

**SUPERIOR GOLD INC.****Condensed Consolidated Interim Statement of Financial Position  
(Unaudited)  
(Expressed in thousands of United States Dollars)**

	June 30, 2019	December 31, 2018
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	\$ 17,187	\$ 17,332
Restricted cash	135	136
Receivables and other assets	2,366	2,029
Inventories (note 5)	15,221	13,242
<b>Total current assets</b>	<b>34,909</b>	<b>32,739</b>
<b>Non-current assets</b>		
Mining interests; exploration and evaluation assets; and property, plant and equipment (note 6)	61,052	63,167
<b>TOTAL ASSETS</b>	<b>\$ 95,961</b>	<b>\$ 95,906</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	\$ 14,948	\$ 12,083
Short-term loan (note 7)	-	579
Current portion of lease obligation (note 14)	3,320	2,612
Contingent royalty payable to Northern Star Resources (note 16)	4,347	4,308
Current portion of provisions (note 8)	6,951	6,416
<b>Total current liabilities</b>	<b>29,566</b>	<b>25,998</b>
<b>Non-current liabilities</b>		
Lease obligation (note 14)	3,000	2,876
Provisions (note 8)	26,139	24,698
Warrant liability (note 11(c))	-	329
Deferred tax liability (note 13)	2,181	3,112
<b>Total non-current liabilities</b>	<b>31,320</b>	<b>31,015</b>
<b>TOTAL LIABILITIES</b>	<b>60,886</b>	<b>57,013</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (note 11(a and b))	\$ 50,025	\$ 49,313
Contributed Surplus (note 11 (c and d))	5,944	5,767
Accumulated other comprehensive loss	(2,763)	(2,550)
Retained deficit	(18,131)	(13,637)
<b>TOTAL EQUITY</b>	<b>\$ 35,075</b>	<b>\$ 38,893</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>\$ 95,961</b>	<b>\$ 95,906</b>

Commitments and contingencies note 9, 16

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

**SUPERIOR GOLD INC.****Condensed Consolidated Interim Statement of Income (loss) and  
Comprehensive Income (loss)****(Unaudited)****(Expressed in thousands of United States Dollars, except per share amounts)**

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
<b>REVENUES</b>				
Metal sales (note 4)	\$ 31,629	\$ 33,631	\$ 61,036	\$ 52,264
<b>EXPENSES</b>				
Cost of sales	32,739	30,501	63,699	50,512
Exploration expense	523	485	1,075	884
General and administrative	657	1,080	1,630	2,622
<b>OPERATING INCOME (LOSS)</b>	<b>(2,290)</b>	<b>1,565</b>	<b>(5,368)</b>	<b>(1,754)</b>
<b>OTHER EXPENSES (INCOME)</b>				
Net finance and other costs (note 12)	24	345	71	778
Loss (gain) on change in valuation of warrant liability (note 11(c))	-	(131)	(85)	99
Loss, and change in valuation of, contingent payable to Northern Star Resources (note 16)	-	69	68	4,602
<b>INCOME (LOSS) BEFORE TAXES</b>	<b>(2,314)</b>	<b>1,282</b>	<b>(5,422)</b>	<b>(7,233)</b>
Income and mining tax (recovery) expense (note 13)	(405)	545	(928)	(2,395)
<b>NET INCOME (LOSS) FOR THE PERIOD</b>	<b>\$ (1,909)</b>	<b>\$ 737</b>	<b>\$ (4,494)</b>	<b>\$ (4,838)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Foreign currency translation difference on foreign operations	(332)	(1,583)	(213)	(2,349)
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>	<b>\$ (2,241)</b>	<b>\$ (846)</b>	<b>\$ (4,707)</b>	<b>\$ (7,187)</b>
<b>Net income (loss) per share (note 11 (e)):</b>				
Basic income (loss) per share	\$ (0.02)	\$ 0.01	\$ (0.05)	\$ (0.05)
Diluted income (loss) per share	(0.02)	0.01	(0.05)	(0.05)
Weighted average number of common shares outstanding (basic)	96,982,473	95,736,905	96,743,688	95,703,210
Weighted average number of common shares outstanding (diluted)	96,982,473	98,551,396	96,743,688	95,703,210

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

**SUPERIOR GOLD INC.****Condensed Consolidated Interim Statement of Changes in Equity  
(Unaudited)  
(Expressed in thousands of United States Dollars)**

	Note	Number of shares issued	Share capital	Contributed Surplus	Retained earnings	Accumulated other comprehensive income (loss)	Total
<b>Balance as at January 1, 2018</b>		<b>95,669,140</b>	<b>\$ 49,220</b>	<b>\$ 5,151</b>	<b>\$ (337)</b>	<b>\$ 1,237</b>	<b>\$ 55,271</b>
Exercise of stock options	11	83,333	93	(27)	-	-	66
Share-based payments	11	-	-	514	-	-	514
Total comprehensive loss		-	-	-	(4,838)	(2,349)	(7,187)
<b>Balance as at June 30, 2018</b>		<b>95,752,473</b>	<b>\$ 49,313</b>	<b>\$ 5,638</b>	<b>\$ (5,175)</b>	<b>\$ (1,112)</b>	<b>\$ 48,664</b>
<b>Balance as at January 1, 2019</b>		<b>95,752,473</b>	<b>\$ 49,313</b>	<b>\$ 5,767</b>	<b>\$ (13,637)</b>	<b>\$ (2,550)</b>	<b>\$ 38,893</b>
Exercise of warrants	11	1,230,000	712	-	-	-	712
Share-based payments	11	-	-	177	-	-	177
Total comprehensive income (loss)		-	-	-	(4,494)	(213)	(4,707)
<b>Balance as at June 30, 2019</b>		<b>96,982,473</b>	<b>\$ 50,025</b>	<b>\$ 5,944</b>	<b>\$ (18,131)</b>	<b>\$ (2,763)</b>	<b>\$ 35,075</b>

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

**SUPERIOR GOLD INC.****Condensed Consolidated Interim Statement of Cash Flows  
(Unaudited)  
(Expressed in thousands of United States Dollars)**

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
<b>Cash flows provided from (used by):</b>				
<b>OPERATING ACTIVITIES</b>				
Net (loss) income for the period	\$ (1,909)	\$ 737	\$ (4,494)	\$ (4,838)
<b>Adjustments:</b>				
Depreciation and amortization	3,251	5,417	8,938	7,607
Loss on contingent payable to Northern Star Resources	-	69	68	4,602
Loss (gain) on change in valuation of warrant liability	-	(131)	(85)	99
Share-based payments	64	216	177	514
Employee provisions expense	1,254	859	1,979	1,602
Net finance and other costs	24	345	71	778
Income tax recovery	(405)	545	(928)	(2,395)
Employee provisions paid	(613)	(553)	(1,165)	(1,089)
Reclamation payments	(264)	(76)	(334)	(93)
Income taxes paid	-	(2,104)	-	(2,104)
	1,402	5,324	4,227	4,683
<b>Net changes in non-cash working capital items:</b>				
Receivables and other assets	(286)	3,489	(341)	289
Inventories	290	(4,203)	(2,089)	(3,133)
Accounts payable and accrued liabilities	2,841	349	2,853	1,521
	4,247	4,959	4,650	3,360
<b>INVESTING ACTIVITIES</b>				
Interest received	40	56	84	101
Expenditures on mineral interests; exploration and evaluation assets; and property, plant and equipment	(2,104)	(7,254)	(3,366)	(10,000)
Decrease in restricted cash	-	1,561	-	1,561
	(2,064)	(5,637)	(3,282)	(8,338)
<b>FINANCING ACTIVITIES</b>				
Issuance of common shares	-	66	467	66
Repayment of short-term loan	(280)	(147)	(475)	(354)
Repayment of lease obligations	(774)	(571)	(1,514)	(851)
Interest paid	(93)	(92)	(206)	(134)
	(1,147)	(744)	(1,728)	(1,273)
<b>Effect of exchange rates on cash and cash equivalents</b>	53	(682)	215	(1,108)
<b>Increase (decrease) in cash and cash equivalents</b>	1,089	(2,104)	(145)	(7,359)
<b>Cash and cash equivalents, beginning of period</b>	16,098	23,866	17,332	29,121
<b>Cash and cash equivalents, end of period</b>	17,187	21,762	17,187	21,762

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

## **SUPERIOR GOLD INC.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

**For the three and six months ended June 30, 2019**

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

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#### **1. CORPORATE INFORMATION AND CONTINUANCE OF OPERATIONS**

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

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

#### **2. SIGNIFICANT ACCOUNTING POLICIES**

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with IAS 34, *Interim Financial Reporting* using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board and the IFRS Interpretations Committee. These financial statements do not include all the information required for full annual financial statements and therefore should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2018. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes to the Company's financial position and performance since the last annual consolidated financial statements.

The Company has applied the same accounting policies and methods as those described in the annual consolidated financial statements for the year ended December 31, 2018, except as described in note 3.

##### **Basis of measurement**

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

The preparation of the financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ materially from these estimates.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2018.

##### **Basis of consolidation**

These consolidated financial statements include the assets, liabilities, revenues and expenses of the Company, its 100% owned subsidiary, Billabong Gold Pty. Ltd and its 80% interest in the unincorporated Bryah Basin joint venture. Subsidiaries are entities over which the Company has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights.

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

## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019

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

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#### 3. NEW AND AMENDED STANDARDS ADOPTED BY THE COMPANY

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

##### **IFRS 16 Leases**

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

The impact of the transition is shown in the table below. The Company's accounting policy under IFRS 16 is as follows:

- At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.
- The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. The assets are depreciated to the earlier of the end of the useful life of the right-of-use asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. Lease terms range from 2 to 7 years for mobile equipment, power plant, office space and office equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. The lease payments associated with these leases are recognized as an expense on a straight-line basis over the lease term.
- The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.
- Variable lease payments not included in the initial measurement of the lease liability are charged directly to net earnings.
- The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.
- When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019

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#### Impact of transition to IFRS 16

On adoption, the Company has recognized a right-of-use asset and lease obligations of \$2,334 as of January 1, 2019, with no net impact on retained earnings. When measuring lease liabilities, the Company discounted lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average incremental borrowing rate applied was 7.9%.

The following table reconciles the Company's operating lease obligations at December 31, 2018, as previously disclosed in the Company's consolidated financial statements, to the lease obligations recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	\$	2,515
Discounted using the incremental borrowing rate at January 1, 2019		(378)
Other adjustments		197
Lease liabilities previously recorded as finance lease obligations		5,488
Lease obligations recognized at January 1, 2019	\$	7,822

#### IFRIC 23 – Uncertainty over Income Tax Treatments

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

#### 4. METAL SALES

	Three months ended June 30		Six months ended June 30	
	2019	2018	2019	2018
Gold sales	\$ 31,601	\$ 33,613	\$ 60,978	\$ 52,216
Silver sales	28	18	58	48
	\$ 31,629	\$ 33,631	\$ 61,036	\$ 52,264

The Company's main source of revenue is the sale of gold. The sale of gold occurs in one geographic market, Australia, and to one customer, The Perth Mint. There are no contract receivables for gold sales as at June 30, 2019 or December 31, 2018.

#### 5. INVENTORIES

	June 30, 2019	December 31, 2018
Consumable stores	\$ 5,654	\$ 5,619
Stockpiles	5,751	3,679
Gold in circuit	3,242	2,991
Dore on hand	574	953
	\$ 15,221	\$ 13,242

The cost of inventories recognized as an expense and included in cost of sales in the three and six month ended June 30, 2019 (2018) was \$5,646 (\$4,671) and \$10,933 (\$9,343), respectively. During the three and six months ended June 30, 2019, there were \$nil write downs (June 30, 2018 - \$nil and \$127, respectively) of consumables inventory.



## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019

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

#### 6. MINING INTERESTS; EXPLORATION AND EVALUATION; AND PROPERTY, PLANT AND EQUIPMENT

	Mining interests	Exploration and evaluation	Property, plant and equipment	Capital work in progress	Total
<i>Cost:</i>					
<b>As at December 31, 2018</b>	\$ 76,115	\$ 446	\$ 23,250	\$ 70	\$ 99,881
Right of use assets <sup>(i)</sup>	-	-	2,334	-	2,334
Additions	3,299	-	41	1,515	4,855
Transfers	647	(446)	78	(279)	-
Foreign exchange movement	(521)	-	(153)	(8)	(682)
June 30, 2019	79,540	-	25,550	1,298	106,388
<i>Accumulated depreciation:</i>					
As at December 31, 2018	26,299	-	10,415	-	36,714
Depreciation charge	6,185	-	2,753	-	8,938
Foreign exchange movement	(230)	-	(86)	-	(316)
June 30, 2019	32,254	-	13,082	-	45,336
As at beginning of period	\$ 49,816	446	\$ 12,835	\$ 70	\$ 63,167
<b>As at June 30, 2019</b>	<b>\$ 47,286</b>	<b>\$ -</b>	<b>\$ 12,468</b>	<b>\$ 1,298</b>	<b>\$ 61,052</b>

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

Effective April 1, 2018, the Company declared the commencement of commercial production at the Hermes open pit mine. The Company transferred \$3,658 from Capital work in progress to Mining interests, net of pre-commercial production gold sales of \$6,648, and \$1,229 from Mining interests to Stockpiles inventory.

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

The Bryah Basin joint venture is located south-west of the Plutonic Gold Mine and the Company has an option to earn up to an 80% interest in the unincorporated joint venture by spending AUD\$1.2 million (\$888) over three years beginning April 2015. In April 2018, the Company gave notice to the joint venture partner that it had incurred the required expenditures during the earn-in period. In the six months ended June 30, 2019 the Company capitalized \$214 (December 31, 2018 - \$446) of exploration and evaluation costs pertaining to the unincorporated Bryah Basin joint venture.

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### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019

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

(i) *Right of use assets*

On January 1, 2019, the Company adopted IFRS 16. As part of the adoption, the Company recorded assets of \$2,334. The assets will be amortized over the remaining term of the contracts, which is 0.5 to 2.75 years as of June 30, 2019.

#### 7. SHORT-TERM LOAN

The short-term loan of \$nil (December 31, 2018 - \$579) represents amounts owing to a financial institution which financed the Company's annual insurance premium. The term of loan is for 10 months commencing in September 2018, terminating in June 2019 and bears interest at 1.8%.

#### 8. PROVISIONS

	June 30, 2019	December 31, 2018
Employee entitlements	\$ 6,877	\$ 6,103
Rehabilitation	26,213	25,011
Total provisions	\$ 33,090	\$ 31,114
Current	\$ 6,951	\$ 6,416
Non-current	26,139	24,698
	\$ 33,090	\$ 31,114

	Employee Entitlements	Rehabilitation	Total provisions
Beginning balance on December 31, 2018	\$ 6,103	\$ 25,011	\$ 31,114
Accretion	-	221	221
Revisions to expected cash flows	1,979	1,491	3,470
Utilized	(1,165)	(334)	(1,499)
Foreign exchange movement	(40)	(176)	(216)
Balance, June 30, 2019	<b>6,877</b>	<b>26,213</b>	<b>33,090</b>
Current	6,770	181	6,951
Non-current	107	26,032	26,139
Balance, June 30, 2019	<b>\$ 6,877</b>	<b>\$ 26,213</b>	<b>\$ 33,090</b>

(ii) *Employee entitlements*

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

(iii) *Rehabilitation provision*

The Company assesses its mine rehabilitation provision annually. Significant judgment is required in determining the provision for mine rehabilitation and closure as there are many factors that will affect the ultimate liability payable to rehabilitate the mine sites, including future disturbances caused by further development, changes in technology, changes in regulations, price increases, changes in timing of cash flows which are based on life of mine plans and changes in discount rates. When these factors change or become known in the future, such differences will impact the mine rehabilitation provision in the period in which the change becomes known. As at June 30, 2019, the mine rehabilitation provision has been discounted using discount

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rates of 1.0% - 1.5% (December 31, 2018 – 1.9% - 2.5%) and the cash flows have been inflated using an inflation rate of 2.0% - 2.5% (2018 – 2.3% - 2.5%), payable over the years 2019 to 2034. As at June 30, 2019, the total undiscounted estimated reclamation costs are approximately \$23,225 (December 31, 2018 - \$23,876). These expenditures are expected to be incurred in Australian dollars.

#### 9. COMMITMENTS

##### *Capital commitments*

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

	June 30, 2019	December 31, 2018
Property, plant and equipment	\$ 648	\$ 414
	<b>\$ 648</b>	<b>\$ 414</b>

In the six months ended June 30, 2019, the Company entered into commitments for milling equipment. These commitments totalled \$648 at June 30, 2019.

#### 10. FINANCIAL INSTRUMENTS

##### **Fair value**

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

The carrying value of lease obligations approximate fair value due to its short-term maturity and are classified as Level 2 in accordance with the fair value hierarchy.

The Warrant Liability was valued using pricing models which require the use of observable inputs including market prices and interest rates obtained from or verified with information available to the market (note 11 (c)). This financial instrument is classified as Level 2 in accordance with the fair value hierarchy. The contingent royalty payable to Northern Star Resources (note 16) is valued using pricing models which require the use of discount rates obtained from or verified with information available to the market along with forecasted production information used to estimate the expected life of the contingent royalty and determine whether the liability is current or non-current. The discount rate is used to discount the AUD\$6.5 million liability over its expected life to derive contingent royalty liability's value. This financial instrument is classified as Level 3 in accordance with the fair value hierarchy.

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### Notes to the Condensed Consolidated Interim Financial Statements

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

The fair value of financial instruments is summarized as follows:

	June 30, 2019		December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial Assets</b>				
<i>Held-for-trading</i>				
Cash and cash equivalents	\$ 17,187	\$ 17,187	\$ 17,332	\$ 17,332
Restricted cash	135	135	136	136
<i>Loans and receivables</i>				
Receivables (excluding HST and GST receivable)	1,192	1,192	1,291	1,291
<b>Financial Liabilities</b>				
Accounts payable and accrued liabilities	\$ 14,948	\$ 14,948	\$ 12,083	\$ 12,083
Short-term loan	-	-	579	579
Lease obligations	6,320	6,320	5,488	5,488
Contingent Royalty payable (note 16)	4,347	4,347	4,308	4,308
Warrant liability (note 11(c))	-	-	329	329

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

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

#### Letter of guarantee facility

In November 2017, the Company entered into an AUD\$6,000 Guarantee Credit Facility, which was amended in February 2019, (the "Credit Facility") with a leading international bank. The Credit Facility permits the Company to issue letters of guarantee for a term of up to 12 months to various suppliers from time to time to support the Plutonic Gold Operations.

The Credit Facility includes an aggregate fee of 3.19% calculated on drawn amounts, is secured by an assignment of a performance security guarantee issued by Export Development Canada ("EDC") in support of the Plutonic Gold Operations. The Credit Facility contains covenants customary for a loan facility of this nature, including limits on indebtedness and change of control. It contains a financial covenant test requiring that the Company maintain a tangible net worth of \$32,000.

Guarantees have been issued under the Credit Facility as at June 30, 2019 in the amounts of \$701, \$565 and \$140, respectively to secure power and gas supply (December 31, 2018 - \$706, \$569 and \$141, respectively). During the three and six months ended June 30, 2019, the Company paid \$9 and \$55 in associated fees on the Credit Facility (three and six months ended June 30, 2018 - \$3 and \$44). The Company is in compliance with all covenants as at June 30, 2019.

## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019

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

#### 11. SHARE CAPITAL

a) Authorized share capital

Unlimited number of common shares without par value.

b) Issued and outstanding

	Number of shares	Amount
<b>Balance, January 1, 2018</b>	<b>95,669,140</b>	<b>\$ 49,220</b>
Shares issued under:		
Exercise of options	83,333	93
<b>Balance, December 31, 2018</b>	<b>95,752,473</b>	<b>\$ 49,313</b>
Shares issued under:		
Exercise of Broker Warrants	1,230,000	712
<b>Balance, June 30, 2019</b>	<b>96,982,473</b>	<b>\$ 50,025</b>

c) Warrants

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

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

On expiry on February 23, 2019, the Company recorded the fair value of the Offering Broker Warrants in the condensed consolidated interim statement of comprehensive income (loss).

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

## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019

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

A summary of the assumptions in respect of warrants issued to the Agent and Northern Star as at June 30, 2019 are as follows:

	Number of warrants	Risk free interest rate	Expected annual volatility	Expected Life (in years)	Value <sup>(1)</sup>
<b>Balance, January 1, 2018</b>					
Broker Warrants	1,230,000	1.67%	58%	1.15	588
Offering Broker Warrants	681,525	1.67%	58%	1.15	161
<b>Revalued, December 31, 2018</b>					
Broker Warrants	1,230,000	1.85%	71%	0.15	309
Offering Broker Warrants	681,525	1.85%	71%	0.15	20
<b>Total Warrant liability as at December 31, 2018</b>					<b>329</b>
<b>Change in valuation of Warrant liability in the period</b>					<b>(420)</b>
<b>Revalued, June 30, 2019</b>					
Broker Warrants <sup>(2)</sup>	1,230,000	1.76%	66%	0.06	244
Offering Broker Warrants <sup>(3)</sup>	681,525	0.00%	0%	0.00	-
<b>Total Warrant liability as at June 30, 2019</b>					<b>-</b>
<b>Change in valuation of Warrant liability in the six month period</b>					<b>(85)</b>
<b>Northern Star Warrants</b>					
Granted, February 23, 2017	14,429,521	1.13%	63%	5.00	<b>\$3,971</b>

<sup>(1)</sup> Based on an assumed dividend yield of 0%.

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

<sup>(3)</sup> Expired.

A summary of the status of warrants as of June 30, 2019 are as follows:

	Number outstanding	Weighted average exercise price (CAD\$)
<b>Balance, January 1, 2018</b>	<b>16,341,046</b>	<b>\$ 1.76</b>
Exercised	-	-
<b>Balance, December 31, 2018</b>	<b>16,341,046</b>	<b>\$ 1.91</b>
Exercised	(1,230,000)	0.50
Expired	(681,525)	1.00
<b>Balance, June 30, 2019</b>	<b>14,429,521</b>	<b>\$ 1.99</b>

## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019

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

#### d) Share-based payments

##### (i) Share option plan

Movements in the share options are summarized below:

	Number of options	Weighted average exercise price <sup>(1)</sup>	Weighted average exercise price (CAD\$)
<b>Balance, January 1, 2018</b>	6,750,000	\$ 0.80	\$ 1.00
Granted	125,000	0.95	1.29
Exercised	(83,333)	0.74	1.00
Forfeited	(1,000,000)	0.74	1.00
<b>Balance December 31, 2018</b>	<b>5,791,667</b>	<b>\$ 0.74</b>	<b>\$ 1.01</b>
Granted	750,000	0.39	0.52
<b>Balance June 30, 2019</b>	<b>6,541,667</b>	<b>\$ 0.73</b>	<b>\$ 0.95</b>

<sup>(1)</sup> At June 30, 2019, the U.S. dollar weighted average exercise price was calculated using the period end Canadian to U.S. dollar exchange rate of 0.7618 (December 31, 2018 – 0.7373).

The fair value of the options granted to employees, officers and directors under the share option plan was measured using the Black-Scholes option pricing model. The grant date fair value is amortized, as part of compensation expense over the vesting period with one third of the Stock Options vesting on the first grant date anniversary, one third vesting on the second grant date anniversary and one third vesting on the third grant date anniversary. The weighted average inputs used in the measurement of fair value during the periods ended June 30, 2019 and December 31, 2018 were:

	2019	2018
Number of share options granted	750,000	125,000
Expected volatility <sup>(1)</sup>	56%	59%
Risk free interest rate	1.53%	2.03%
Estimated forfeiture rate	0%	0%
Expected dividend yield	Nil	Nil
Expected life in years	3.5	3.5
<b>Fair value (weighted average)</b>		
- CAD\$	\$ 0.22	\$ 0.56
- U.S. \$ <sup>(2)</sup>	\$ 0.16	\$ 0.44

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

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

Share options outstanding and exercisable at June 30, 2019 are:

Options outstanding					Options exercisable			
Exercise price (CAD\$)	Number of options	Weighted average exercise price <sup>(1)</sup>	Weighted average exercise price CAD\$	Weighted average remaining contractual life (years)	Number of options	Weighted average exercise price <sup>(1)</sup>	Weighted average exercise price CAD\$	Weighted average remaining contractual life (years)
\$0.52	750,000	\$0.40	\$0.52	4.75	-	-	-	-
\$1.00	5,666,667	\$0.76	\$1.00	2.74	5,100,001	\$0.76	\$1.00	2.68
\$1.29	125,000	\$0.98	\$1.29	3.94	41,667	\$0.98	\$1.29	3.94
<b>\$1.00</b>	<b>6,541,667</b>	<b>\$0.72</b>	<b>\$0.95</b>	<b>2.99</b>	<b>5,141,668</b>	<b>\$0.75</b>	<b>\$1.00</b>	<b>2.69</b>

<sup>(1)</sup> At June 30, 2019, the U.S. weighted average exercise price was calculated using the period end Canadian to U.S. dollar exchange rate of 0.7618 (December 31, 2018 – 0.7373).

## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements

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#### (ii) Performance Share Units

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

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

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

	Number of Performance Share Units
<b>Balance, January 1, 2018</b>	-
Granted	225,000
Forfeited	(100,000)
<b>Balance December 31, 2018</b>	<b>125,000</b>
Granted	<b>401,500</b>
<b>Balance June 30, 2019</b>	<b>526,500</b>

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

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

The following is a summary of the assumptions used in the Monte Carlo model approach for PSUs granted in the periods ended June 30, 2019 and December 31, 2018 were:

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

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

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



## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019

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

#### Equity settled plans

	Share option plan		Performance share units		Total	
	Three months ended	Six months ended	Three months ended	Six months ended	Three months ended	Six months ended
	June 30, 2019		June 30, 2019		June 30, 2019	
Cost of sales – Mining	\$ 19	\$ 38	\$ -	\$ -	\$ 19	\$ 38
Cost of sales – Site services	-	-	-	-	-	-
General and administrative	30	118	15	21	45	139
	<b>\$ 49</b>	<b>\$ 156</b>	<b>\$ 15</b>	<b>\$ 21</b>	<b>\$ 64</b>	<b>\$ 177</b>

#### Equity settled plans

	Share option plan		Performance share units		Total	
	Three months ended	Six months ended	Three months ended	Six months ended	Three months ended	Six months ended
	June 30, 2018		June 30, 2018		June 30, 2018	
Cost of sales – Mining	\$ 36	\$ 72	\$ -	\$ -	\$ 36	\$ 72
Cost of sales – Site services	36	91	2	2	38	93
General and administrative	140	347	2	2	142	349
	<b>\$ 212</b>	<b>\$ 510</b>	<b>\$ 4</b>	<b>\$ 4</b>	<b>\$ 216</b>	<b>\$ 514</b>

#### e) Earnings per share

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

Number of common shares	Three months ended		Six months ended	
	June 30		June 30	
	2019	2018	2019	2018
Basic weighted average shares outstanding	96,982,473	95,736,905	96,743,688	95,703,210
Weighted average shares dilution adjustments:				
Share options and PSU's	-	1,831,730	-	-
Warrants	-	982,761	-	-
<b>Diluted weighted average shares outstanding</b>	<b>96,982,473</b>	<b>98,551,396</b>	<b>96,743,688</b>	<b>95,703,210</b>

The impact of all outstanding potentially dilutive instruments is excluded from the diluted share calculation for loss per share amounts as they are anti-dilutive for the three and six months ended June 30, 2019 (six months ended June 30, 2018).

## 12. NET FINANCE AND OTHER COSTS

	Three months ended		Six months ended	
	June 30		June 30	
	2019	2018	2019	2018
Accretion of provisions	\$ 101	\$ 120	\$ 221	\$ 237
Lease and short-term loan finance charges	93	92	206	134
Interest income	(40)	(56)	(84)	(101)
Foreign exchange (gain)/loss	(130)	189	(272)	508
	<b>\$ 24</b>	<b>\$ 345</b>	<b>\$ 71</b>	<b>\$ 778</b>

## SUPERIOR GOLD INC.

### Notes to the Condensed Consolidated Interim Financial Statements

For the three and six months ended June 30, 2019

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

#### 13. TAXES

The Company estimates the effective tax rate expected to be applied for the full fiscal year and uses this rate to determine income provisions in interim periods. The impact of changes in judgments and estimates concerning the probable realization of losses, changes in tax rates, and foreign exchange rates are recognized in the interim period in which they occur.

The tax expense (recovery) for the three and six months ended June 30, 2019 was (\$405) and (\$928) (June 30, 2018 – \$545 and (\$2,395)).

#### 14. LEASE OBLIGATION

The following table presents the contractual undiscounted cash flows for lease obligations as at June 30, 2019:

Less than one year	\$	3,615
One to five years	\$	3,144
Total undiscounted lease obligations	\$	6,759

Interest expense on lease obligations for the three and six months ended June 30, 2019 was \$90 and \$199. Total cash outflow for leases for the three and six months ended June 30, 2019 was \$864 and \$1,713, including \$23 and \$49 for short-term leases. Expenses for leases of low-dollar value items are not material. All extension options have been included in the measurement of lease obligations, where applicable.

#### 15. CAPITAL MANAGEMENT

The Corporation's objective when managing capital is to ensure the Corporation continues as a going concern by ensuring it has an appropriate amount of liquidity and that it has an appropriate capital structure. Management monitors the amount of cash, undrawn (or potentially available) financing, equity in the capital structure and adjusts the capital structure, as necessary, to support the operation, development and exploration of its projects.

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

The Board of Directors has not established criteria for quantitative return on capital for management, but rather relies on the expertise of management to sustain future development of the business. The Corporation considers its capital to be shareholders' equity, which amounted to \$35,075 at June 30, 2019 (December 31, 2018 - \$38,893).

#### 16. PLUTONIC GOLD OPERATIONS ACQUISITION

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

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

## **SUPERIOR GOLD INC.**

### **Notes to the Condensed Consolidated Interim Financial Statements**

**For the three and six months ended June 30, 2019**

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

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The fair value of the Milestone Payments was determined to have nil value as at June 30, 2019 as Management had determined that it was uncertain that the threshold outlined in the Acquisition Agreement of 1,717,000 ounces of Joint Ore Reserves Committee 2012 compliant measured, indicated and inferred resources will be reached.

Upon completion of the Company's reserve and resource update effective December 31, 2017, the Company accrued a contingent royalty payable of \$4,533 and a corresponding charge to the Statement of income (loss) and comprehensive income (loss). The Company has accounted for the contingent royalty payable as a financial liability as it is denominated in Australian dollars. For accounting purposes, the fair value of the contingent royalty payable was determined to be AUD\$5,914 based on the net present value of the Northern Star Royalty's AUD\$6.5 million buyback option, discounted from the time the Company anticipates it to become payable. As at June 30, 2019, payment of the contingent royalty is estimated to occur in the first quarter of 2020.

The Company discounted the contingent royalty payable using its weighted average cost of capital of 6.5% as at June 30, 2019 and translated the amount using the period end Australian to U.S. dollar exchange rate of 0.7013, with any changes in fair value being reflected in the consolidated statement of comprehensive income as a change in valuation of the contingent royalty payable.