TITAN MINING CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2019

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The accompanying consolidated financial statements of Titan Mining Corporation have been prepared by management in accordance with International Financial Reporting Standards and reflect management's best estimates and judgment based on information currently available. The financial information contained elsewhere in this report has been reviewed to ensure consistency with the consolidated financial statements.

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate consolidated financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the consolidated financial statements with management and the external auditors. Ernst & Young LLP, an independent firm of chartered professional accountants, appointed as external auditors by the shareholders, have audited the consolidated financial statements and their report is included herein.

/s/ Donald R. Taylor	/s/ Michael McClelland
Chief Executive Officer	Chief Financial Officer

March 23, 2020

Independent auditor's report

To the Shareholders of
Titan Mining Corporation

Opinion

We have audited the consolidated financial statements of **Titan Mining Corporation** [the "Company"], which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of loss and other comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

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 *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 to the consolidated financial statements, which indicates that the Company incurred a net loss of $10,886 thousand during the year ended December 31, 2019 and, as of that date, the Company's current liabilities exceeded its current assets by $21,225 thousand. As stated in note 1, these events or conditions, along with other matters as set forth in note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

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

- Management's Discussion and Analysis

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

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

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

Responsibilities of management and those charged with governance for the consolidated financial statements

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Brenna Daloise.

Ernst & Young LLP

Chartered Professional Accountants

Vancouver, Canada
March 23, 2020

TITAN MINING CORPORATION

Consolidated Statements of Financial Position

(Expressed in thousands of US dollars)

	Notes		December 31, 2019		December 31, 2018
Assets					
Current assets					
Cash and cash equivalents		$	1,709	$	2,290
Trade and other receivables	8		655		1,123
Inventories	9		2,626		2,702
Prepaid expenses			789		989
			5,779		7,104
Non-current assets					
Mineral properties, plant and equipment	10		70,593		64,254
Right-of-use assets	11a		385		-
Restricted cash	12,15		1,743		1,732
Other assets			-		111
Total assets		$	78,500	$	73,201
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	4,435	$	7,956
Lease liabilities	11b		271		-
Debt	13		180		4,241
Loan from related party	14a		21,093		-
Deferred rental contribution	4,14b		-		436
Warrant derivative liability	14a		-		1,099
Acquisition obligations	18a,b		1,025		1,025
			27,004		14,757
Non-current liabilities					
Loan from related party	14a		-		14,809
Lease liabilities	11b		146		-
Debt	13		10,022		721
Other payables	14c		192		367
Deferred rental contribution	4,14b		-		916
Reclamation and remediation provision	15		15,946		14,392
Total liabilities			53,310		45,962
Shareholders' equity					
Equity attributable to shareholders of the Company					
Share capital	16a, b		56,704		51,859
Reserves	16c, d		4,975		2,335
Deficit			(36,489)		(26,955)
Total equity			25,190		27,239
Total liabilities and shareholders' equity		$	78,500	$	73,201

Nature of operations and going concern (Note 1)

The notes form an integral part of these consolidated financial statements.

TITAN MINING CORPORATION

Consolidated Statements of Loss and Other Comprehensive Loss

(Expressed in thousands of US dollars)

	Notes	Year Ended December 31, 2019	2018
Revenue			
Provisional pricing adjustment	6	$ 1,074	$ (1,552)
Other operating expenses			
General and administration expenses	7a	4,162	6,099
Exploration and evaluation expenses	7b	3,490	7,341
		7,652	13,440
Other expenses (income)			
Interest and other finance expenses	13a,14a	2,956	476
Accretion expense	15	275	391
Gain on derivative liability	13a,14a	(181)	-
Impairment of equipment	10	114	-
Loss on loan extinguishment	13a	1,702	-
Interest income		(35)	(111)
Foreign exchange (Gain) loss		(550)	67
Other expenses		27	42
		4,308	865
Net loss for the year		10,886	15,857
Other comprehensive loss			
Items that may be reclassified to profit or loss			
Unrealized loss on translation to reporting currency		497	195
Total comprehensive loss for the year		$ 11,383	$ 16,052
Basic and diluted loss per share (in US $)		$ 0.10	$ 0.16
Weighted average shares outstanding (in ‘000)		107,658	101,971

The notes form an integral part of these consolidated financial statements.

TITAN MINING CORPORATION
Consolidated Statements of Changes in Equity
(Expressed in thousands of US dollars)

		Share capital		Reserves				
	Notes	Number ('000s)	Amount	Share options, warrants and subscriptions received	Currency translation adjustment	Total	Deficit	Total equity
Balance, January 1, 2018		101,971	$ 51,834	$ 956	$ (211)	$ 745	$ (11,098)	$ 41,481
Refund of share issuance costs		-	25	-	-	-	-	25
Share-based compensation		-	-	1,785	-	1,785	-	1,785
Total comprehensive loss for the period		-	-	-	(195)	(195)	(15,857)	(16,052)
Balance, December 31, 2018		101,971	$ 51,859	$ 2,741	$ (406)	$ 2,335	$ (26,955)	$ 27,239
Balance, January 1, 2019, as previously reported		101,971	$ 51,859	$ 2,741	$ (406)	$ 2,335	$ (26,955)	$ 27,239
Impact of change in accounting policy	4	-	-	-	-	-	1,352	1,352
Adjusted balance, January 1, 2019		101,971	51,859	2,741	(406)	2,335	(25,603)	28,591
Shares and share purchase warrants issued as borrowing costs	13a,16d	3,000	919	493	-	493	-	1,412
Shares and share purchase warrants issued in private placement	16b,16d	18,000	3,926	812	-	812	-	4,738
Issue of share purchase warrants	14a,16d	-	-	1,028	-	1,028	-	1,028
Share-based compensation	16c	-	-	804	-	804	-	804
Total comprehensive loss for the period		-	-	-	(497)	(497)	(10,886)	(11,383)
Balance, December 31, 2019		122,971	$ 56,704	$ 5,878	$ (903)	$ 4,975	$ (36,489)	$ 25,190

The notes form an integral part of these consolidated financial statements.

TITAN MINING CORPORATION
Consolidated Statements of Cash Flows
(Expressed in thousands of US dollars)

	Notes	Year ended December 31, 2019	2018
Operating activities			
Loss for the year		$ (10,886)	$ (15,857)
Accretion expense	15	275	391
Amortization of borrowing and transaction costs	13a,14a	528	158
Amortization of deferred rental contribution	14b	-	(236)
Depreciation of right-of-use assets	11a, c	158	-
Gain on derivative liability	13a, 14a	(181)	-
Interest and borrowing expense accruals		2,328	318
Interest expense on lease liabilities	11c	95	-
Interest income accrual on restricted cash		(11)	(3)
Impairment of equipment	10	114	-
Loss on loan extinguishment	13a	1,702	-
Share-based compensation		725	1,785
Unrealized foreign exchange loss on lease liabilities	11b	17	-
		(5,136)	(13,444)
Changes in non-cash working capital:			
Trade and other receivables		468	(936)
Inventories		370	(2,115)
Other current assets		363	(553)
Accounts payable and accrued liabilities		(1,289)	1,856
Net cash used in operating activities		(5,224)	(15,192)
Financing activities			
Deferred rental contributions received		-	1,588
Proceeds from bank indebtedness	13a	6,000	4,000
Proceeds from related party loan	14a	4,015	15,695
Proceeds from shares and share purchase warrants issued	16b	4,738	-
Payment of interest, borrowing and transaction costs		(518)	(351)
Payment of lease liabilities	11d	(949)	-
Refund of share issuance costs		-	25
Repayment of equipment loans	13b	(36)	-
Net cash provided by financing activities		13,250	20,957
Investing activities			
Additions to mineral properties, plant and equipment		(8,110)	(28,437)
Acquisition of other assets		-	(11)
Net cash used in investing activities		(8,110)	(28,448)
Effect of foreign exchange on cash and cash equivalents		(497)	(195)
Increase (decrease) in cash and cash equivalents		(581)	(22,878)
Cash and cash equivalents, beginning of year		2,290	25,168
Cash and cash equivalents, end of year		$ 1,709	$ 2,290

Supplementary cash flow information (note 21)

The notes form an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Titan Mining Corporation ("Titan" or the "Company") was incorporated on October 15, 2012 under the laws of British Columbia and is a natural resources company engaged in the acquisition, exploration, development and production of mineral properties. The Company holds a 100% indirect ownership interest in the Empire State Mine in Northern New York State, United States.

The Company's common shares are listed on the Toronto Stock Exchange and trade under the symbol "TI". The Company's head office is located at 555–999 Canada Place, Vancouver, BC, Canada V6C 3E1.

These consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of operations. These consolidated financial statements do not reflect the adjustments to carrying values of assets and liabilities that would be necessary should the going concern assumption prove to be inappropriate, and these adjustments could be material.

As at December 31, 2019, the Company had cash and cash equivalents of $1,709, working capital deficit of $21,225, a net loss for the year ended December 31, 2019 of $10,886, and a deficit of $36,489. During the year ended December 31, 2019, the Company had cash outflows from operating activities of $5,224 and cash outflows from investing activities of $8,110. The Company received proceeds of $6,000 under its credit arrangement, $4,738 from shares and share purchase warrants issuance and loan proceeds of $4,015 from a company controlled by Titan's Executive Chairman. During the year ended December 31, 2019, the Company and the Lender amended the credit arrangement with the Bank of Nova Scotia whereby the available credit limit continues as $10,000 and the maturity date was extended to April 3, 2021. In addition, the financial covenant requirement on the Credit Facility was removed (note 13a). A $10,000 guarantee against the credit arrangement has been provided by a company controlled by Titan's Executive Chairman.

Based on the Company's plan for Empire State Mine's operations and continued exploration drilling programs, and its current level of corporate overheads, the Company will require additional funding within the next twelve months. The Company has historically raised funds principally through the sale of securities and most recently, through the credit arrangement and advances from a related party. The Company expects that it will continue to obtain funding through similar or other means depending on market conditions and other relevant factors at the time. However, there can be no assurance that the Company will be able to obtain such additional funding or obtain it on acceptable terms. This material uncertainty casts significant doubt about the Company's ability to continue as a going concern.

2. BASIS OF PRESENTATION

a) Overview

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). On March 23, 2020, the Company's Board of Directors approved these consolidated financial statements for issuance.

b) Basis of measurement

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

c) Basis of consolidation

These consolidated financial statements include the accounts of the parent company, Titan Mining Corporation, its subsidiaries, and its share in a management company ("Manco"). Material intercompany transactions, balances, revenues, and expenses have been eliminated upon consolidation.

(Expressed in thousands of US dollars, unless otherwise indicated)

Subsidiaries are included in the consolidated financial results from the effective date of acquisition or control through to the effective date of disposition or loss of control. Control is achieved when the Company has power over the investee, is exposed to or has rights to variable returns from its involvement with an investee, and has the ability to affect those returns through its power over the investee.

Subsidiary	Incorporation jurisdiction	Ownership %	
		2019	2018
1100951 BC Ltd.	British Columbia	100%	100%
Titan Mining (US) Corp.	Delaware	100%	100%
Balmat Holdings Corp.	Delaware	100%	100%
Empire State Mines, LLC (formerly, St. Lawrence Zinc. Co. LLC)	Delaware	100%	100%
1077615 US LLC	Nevada	100%	100%

The Company is also one of the shareholders in Manco (note 14b). The Company has determined that Manco is a joint arrangement whereby the related companies have joint control of the arrangement. The joint operators have rights to the assets and obligations for the liabilities in Manco. The Company has accounted for its share of Manco assets, liabilities, income and expenses on a line-by-line basis.

d) Functional and presentation currency

The financial statements of each company within the consolidated group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The functional currency of the parent company is the Canadian dollar and the functional currency of all the subsidiaries is the US dollar. These consolidated financial statements are presented in US dollars, which is the Company's presentation currency.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these consolidated financial statements requires management to make judgments, estimates and assumptions in the process of applying the Company's accounting policies that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements, and reported amounts of expenses during the reporting period. Estimates and assumptions are continually evaluated. However, actual outcomes could materially differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected.

Information about critical judgments and estimates in applying accounting policies that have the most significant effect on amounts recognized in the consolidated financial statements are as follows:

- Estimated mineral resources – Mineral resources are estimates of the amount of metal that can be extracted from the Company's properties, considering both economic and legal factors. Estimating the quantity and/or grade of mineral resources requires the analysis of drilling samples and other geological data. Calculating mineral resource estimates requires decisions on assumptions about geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transportation costs, commodity prices and foreign exchange rates. Estimates of mineral resources may change from period to period as the economic assumptions used to estimate mineral resources change and as a result of additional geological data generated during the course of operations. Changes in reported mineral resources may affect the Company's financial position in a number of ways, including the following:
  i. asset carrying values may be affected due to changes in estimated future cash flows;

ii. prospective depreciation charges in the Company's consolidated statement of comprehensive income may change when such charges are determined by the unit-of-production basis, or when the useful lives of assets change; and
iii. provision for reclamation liabilities balances may be affected as the estimated timing of reclamation activities is adjusted for changes in the estimated mine life as determined by the available mineral resources.

- Revenue recognition – The revenue standard sets out a five-step model for the recognition of revenue when control of goods is transferred to, or a service is performed for, the customer. The five steps are to identify the contract(s) with the customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to each performance obligation and recognize revenue as each performance obligation is satisfied. Management exercises judgment when taking into consideration the relevant facts and circumstances when applying each step of the model to contracts with customers.

- Capitalization of costs - Judgment is required in evaluating whether expenditures meet the criteria to be capitalized, including the probability that future economic benefits will be generated. Determination of probable future economic benefit is based on management's evaluation of the technical feasibility and commercial viability of the geological properties of a given ore body based on information obtained, including metallurgical testing, resource and reserve estimates and the economic assessment of whether the ore body can be mined economically.

- Reclamation and remediation provision – The Company's accounting policy requires the recognition of a provision for future reclamation and other closure activities when the obligation arises. The present value of future obligations is estimated by the Company using mine closure plans and other studies based on current environmental laws and regulations and Company policy. The estimates include assumptions as to the future estimated costs, timing of the cash flows to discharge the obligations, inflation rates, and the prevalent market discount rates. The reclamation and closure estimates are more uncertain the further into the future the activities are to be performed. Any changes to these assumptions will result in an adjustment to the provision which affects the Company's liabilities and its property, plant and equipment.

- Impairment – Management applies significant judgment in its assessment and evaluation of asset or cash generating units at each reporting date to determine whether there are any indications of impairment. The Company considers both internal and external sources of information when making the assessment of whether there are indications of impairment for the Company's mineral properties, plant and equipment. External sources of information considered are changes in the Company's economic, legal and regulatory environment, which it does not control, but affect the recoverability of its mining assets. Internal sources of information the Company considers include the manner in which mining properties and plant and equipment are being used or are expected to be used and indications of economic performance of the assets. Calculating the fair value less costs of disposal ("FVLCD") of cash generating units for impairment tests requires management to make estimates and assumptions with respect to future production levels, operating, capital and closure costs, future metal prices and discount rates. Changes in any of the assumptions or estimates used in determining the fair values could impact the impairment analysis.

- Fair value measurement – When the fair values of financial instruments recorded in the statement of financial position cannot be measured based on quoted prices in active markets, they are measured using valuation techniques, including the discounted cash flow ("DCF") model and the Black-Scholes model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. In relation to determining the fair value of provisionally priced trade receivables, they are measured based on estimated future zinc prices obtained from a company that provides base metal concentrate trading services (i.e. market participant). When the fair values of non-financial assets need to be determined, e.g., for the purposes of calculating fair value less costs of disposal for impairment testing purposes, they are measured using valuation techniques including the DCF model.

- Determination of useful life of assets for depreciation purposes – Significant judgment is involved in the determination of the useful life and residual value of long-lived assets that drive the calculation of depreciation charges. Changes in the estimate of useful lives and residual values may impact the depreciation calculations.
- Share-based compensation – The fair value of share-based compensation is calculated using the Black-Scholes model. The main assumptions used in the model include the estimated life of the option, the expected volatility of the Company's share price (using historical volatility of similar publicly-traded companies as a reference), the expected dividends, the expected forfeiture rate, and the risk-free rate of interest. The resulting value calculated is not necessarily the value that the holder of the option could receive in an arm's-length transaction given that there is no market for the options and they are not transferable.
- Taxation – The provision for income taxes and the composition of income tax assets and liabilities requires management's judgment. In determining these amounts, management interprets the applicable income tax legislation and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Management also makes estimates of future taxable profits, which affect the extent to which potential future tax benefits may be accrued. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows resulting from estimates of future production and sales volumes, commodity prices, mineral resources, operating costs and other capital management transactions. These judgments, estimates and assumptions are subject to risks and uncertainties, which may impact the actual amount of deferred income tax assets recognized in the Company's statement of financial position and the benefit of other tax losses and temporary differences not yet recognized.
- Determination of commercial production – The Company determined that its Empire State Mine's #4 had not reached commercial production as at and for the period ended December 31, 2019. The determination of commencement of commercial production is a matter of significant judgment which will impact when the Company recognizes revenue, operating costs and depreciation and depletion in the statement of profit and loss. In making its determination, Management considered factors that are not limited to - capital expenditures to bring the mine to the condition necessary for it to be capable of operating in the manner intended, the ability to consistently produce a saleable product, and planned mining and mill throughput rates. In its assessment, Management determined that given the restructuring of the operation in the first quarter of 2019 and continued ramp-up throughout the period, planned mining and mill throughput rates had not been achieved to reach commercial production.

4. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

Other than the changes described below, the accounting policies adopted are consistent with those of the previous financial year.

The Company applied IFRS 16 effective January 1, 2019.

IFRS 16 – Leases

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

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive right, then the asset is not identified.

- The Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purposed the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
  - The Company has the right to operate the asset; or
  - The Company designed the asset in a way that predetermines how and for what purpose it will be used.

This policy is applied to contracts entered, or changed, on or after January 1, 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease component based on their relative stand-alone prices.

The Company recognizes a right-to-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises 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 right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-to-use asset or the end of the lease term. The estimated useful life of the right-to-use assets are determined on the same basis as those of property, plant and 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 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.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise prices under a purchase price option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest rate 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.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets. The Company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

(Expressed in thousands of US dollars, unless otherwise indicated)

Impact of transition to IFRS 16

The Company has applied IFRS 16 using the modified retrospective approach and, accordingly, the comparative information has not been restated and continues to be reported under IAS 17 and related interpretations.

On transition to IFRS 16, the Company elected to apply the new definition of a lease to all its contracts.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognize right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

There were no leases classified as finance leases at transition.

On initial application, the Company recognized right-of-use assets of and lease obligations of $2,272. Deferred rental contribution of $1,352 was derecognized, with the cumulative effect recognized in retained earnings at January 1, 2019. When measuring lease liabilities, the Company discounted the remaining lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 9.9%.

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	$	2,106
Recognized under new lease definition		432
		2,538
Discounted using the incremental borrowing rate at January 1, 2019		(266)
Lease liabilities recognized at January 1, 2019	$	2,272

5. SIGNIFICANT ACCOUNTING POLICIES

a) Cash and cash equivalents

Cash and cash equivalents include cash at banks and on-hand, and short-term deposits with an original maturity of three months or less, but exclude any restricted cash. Restricted cash is not available for use by the Company and, therefore, is not considered highly liquid.

b) Foreign currencies

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on the settlement of monetary items denominated in currencies other than the functional currency are recognized in profit or loss in the statement of income in the period in which they arise. Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income (loss) in the consolidated statement of comprehensive loss to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income (loss). Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Parent and subsidiary companies

The financial results and position of operations whose functional currency is different from the presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at the average exchange rates for the period.

Exchange differences are transferred directly to the consolidated statement of comprehensive loss and are included in a separate component of equity titled "Currency translation adjustment". These differences are recognized in profit or loss in the period in which the operation is disposed.

c) Inventories

Production inventories

Ore stock, work-in-process and finished metal inventories are measured at the lower of cost and net realizable value. Cost is determined on a weighted-average basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognized as an expense in the period in which the related revenue is recognized. The amount of any write-down of inventories to net realizable value and all losses of inventories is recognized as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realizable value is recognized as a reduction in inventories recognized as an expense in the period in which the reversal occurs. During the pre-commercial start-up period, these expenses are capitalized to construction in progress net of any pre-commercial sales revenue.

Materials and supplies

Materials and supplies inventory is measured at the lower of cost and net realizable value. Costs include acquisition, freight and other directly attributable costs. A periodic review is undertaken to determine the extent of any provision for obsolescence. Major spare parts and standby equipment are included in property, plant, and equipment when they are expected to be used over more than one period, if they can only be used in connection with an item of property, plant and equipment.

d) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. All financial instruments are initially recorded at fair value, adjusted for directly attributable transaction costs. The Company determines each financial instrument's classification upon initial recognition. Measurement in subsequent periods depends on the financial instrument's classification.

Financial assets

Under IFRS 9, financial assets are classified into three measurement categories on initial recognition: fair value through profit and loss ("FVTPL"), fair value through other comprehensive income ("FVOCI") and amortized cost. Investments in equity instruments are required to be measured by default at FVTPL (but there is an irrevocable option for each equity instrument to present fair value changes in other comprehensive income).

Measurement and classification of financial assets is dependent on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset.

Financial assets are classified and measured at: FVTPL, FVOCI and amortized cost. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. Measurement and classification of financial assets is dependent on the Company's business model for managing the financial assets and the contractual cash flow characteristics of the financial asset i.e. whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Financial assets at amortized cost (debt instruments)

The Company measures financial assets at amortized cost if both of the following conditions: the financial asset is held with the objective to collect contractual cash flows; and the contractual terms of the financial asset give rise to cash flows that are solely payments of principal and interest ("SPPI"). This is referred to as the SPPI test.

Financial assets at amortized cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Interest received is recognized as part of finance income. Gains and losses are recognized when the asset is derecognized, modified or impaired.

The Company's financial assets at amortized cost include:

- cash equivalents;
- restricted cash; and
- other receivables.

Financial assets at FVTPL

Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value i.e. fail the SPPI test. Derivatives are classified as held for trading unless they are designated as effective hedging instruments.

Financial assets at FVTPL are carried in the statement of financial position at fair value with net changes in fair value recognized in profit or loss.

An embedded derivative will often make a financial asset fail the SPPI test thereby requiring the instrument to be measured at FVTPL in its entirety. This is applicable to the Company's trade receivables which are subject to provisional pricing. These receivables relate to sales contracts where the selling price is determined after delivery to the customer, based on the market price stipulated in the contract and causes such trade receivables to fail the SPPI test. As a result, these receivables are measured at FVTPL from the date of sale, with subsequent movements being recognized in revenue in the statement of comprehensive income.

Impairment

An expected credit loss ("ECL") impairment model applies which requires a loss allowance to be recognized based on ECLs. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original EIR, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Financial liabilities at FVTPL

Financial liabilities at FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVTPL. Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments that are not designated as hedging instruments, such as the Company's warrant derivative liability.

Gains or losses on financial liabilities at FVTPL are recognized in profit or loss.

Loans and borrowings and payables

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized, as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income. Gains and losses are recognized when the financial liability is derecognized.

The Company's financial liabilities at amortized cost include:

- trade and other payables;
- loans and borrowings; and
- acquisition obligations.

A financial liability is derecognized when the associated obligation is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of comprehensive income.

e) Fair value measurement

The Company measures financial instruments, such as provisionally priced trade receivables, at fair value at each reporting date. Also, from time to time, the fair values of non-financial assets and liabilities are required to be determined, e.g., when the entity acquires a business, or where an entity measures the recoverable amount of an asset or CGU at FVLCD. Fair values of financial instruments measured at amortized cost are disclosed in note 18.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

f) Mineral properties, plant and equipment

Mineral properties

Mineral properties are carried at cost, less accumulated depletion and any accumulated impairment charges and include:

- The fair value of exploration properties acquired;

- Development costs on an area of interest once management has determined the property has achieved technical feasibility and commercial viability. Development expenditure includes operating and site administration costs, net of the proceeds of metal sales during the development phase;
- Development costs on a property after commercial production is achieved when it is probable that additional economic benefit will be derived from future operations.

Mining properties are depleted over the economic life of the property on a units-of-production basis based on mineral reserves and, where included in the mine plan, mineral resources.

Plant and equipment

Plant and equipment are recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of plant and equipment includes its purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated shutdown and restoration costs associated with dismantling and removing the asset.

Depreciation is provided at rates calculated to write off the cost of plant and equipment, less their estimated residual value, using the straight-line method or unit-of-production method over their expected useful lives.

An item of plant and equipment is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal, determined as the difference between the net disposal proceeds and the carrying value of the asset, is recognized in profit or loss in the consolidated statement of comprehensive loss.

Estimates of residual values and useful lives are reassessed annually and any change in estimate is taken into account in the determination of remaining depreciation charges. Depreciation commences on the date when the asset is available for use.

g) Reclamation and remediation provision

Reclamation and remediation provisions arise due to legal or constructive obligations as a result of the Company’s exploration, development and operating activities, and are recorded in the period in which the activity generating the liability is incurred. The estimated present value of such reclamation and remediation costs, calculated using a risk-free, pre-tax discount rate, are capitalized to the corresponding asset along with the recording of a corresponding liability as soon as the obligation to incur such cost arises. The liability is adjusted each period for the unwinding of the discount rate, changes to the current market-based discount rate and for the amount or timing of the underlying cash flows needed to settle the obligation. Changes in reclamation and remediation estimates are accounted for prospectively as changes in the corresponding capitalized cost.

h) Revenue

IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) applies to all revenue arising from contracts with its customers. The revenue standard establishes a five-step model to account for revenue arising from contracts with customers. It requires revenue to be recognized when (or as) control of a good or service transfers to a customer at an amount that reflects the consideration to which an entity expects to be entitled. The standard also requires enhanced and extensive disclosures about revenue to help investors better understand the nature, amount, timing and uncertainty of revenue and cash flows from contracts with customers.

Revenue is generated from the sale of zinc concentrate. For fiscal year 2019 and 2018, revenue realized during the commissioning phase of Empire State Mine was recorded as a credit to mineral properties, plant and equipment.

The Company does not sell on commercial terms that requires it to provide freight services after the date at which control of the product passes to the customer. As such, the Company's sole performance obligation relates to the delivery of zinc concentrates to its customer with each separate shipment representing a separate performance obligation. Revenue is recognized at the point in time when the customer obtains control of the product. Control is achieved when the product is delivered to the customer; the Company has a present right to payment for the product; significant risks and rewards of ownership have transferred to the customer according to contract terms; and there is no unfulfilled obligation that could affect the customer's acceptance of the product.

The amount of revenue recorded is based on the expected final pricing of the shipment, as specified in the pricing terms with the customer; and the net amount of metal for which the Company will receive payment. Adjustments are made in subsequent periods based on fluctuations in expected final pricing until the date of final settlement ("provisional pricing adjustments"). These provisional pricing adjustments (both gains and losses) are recorded in revenue in the Statements of Comprehensive Loss and other Comprehensive Loss and in trade receivables on the consolidated statements of financial position.

i) Exploration and evaluation expenses

Exploration and evaluation expenses comprise costs that are directly attributable to:

- researching and analyzing existing exploration data;
- conducting geological studies, exploratory drilling and sampling;
- examining and testing extraction and treatment methods; and
- activities in relation to evaluating the technical feasibility and commercial viability of extracting a mineral resource.

All exploration and evaluation expenditures are expensed. When technical feasibility and commercial viability have been determined and the subsequent costs incurred for the development of that project are capitalized as mining properties, plant and equipment, as appropriate.

j) Impairment of non-financial assets

At each reporting period the Company assesses whether there is an indication that an asset or group of assets may be impaired. When impairment indicators exist, or when the decision to proceed with the development of a particular project is taken based on its technical and commercial viability, the Company estimates the recoverable amount of the asset or group of assets and compares it against the carrying amount. The recoverable amount is the higher of the FVLCD and the asset's value in use. If the carrying value exceeds the recoverable amount, an impairment loss is recorded in the consolidated statement of comprehensive loss for the period.

In calculating the recoverable amount, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. The cash flows are based on best estimates of expected future cash flows from the continued use of the asset.

k) Income taxes

Income tax is recognized in net income (loss) for the period except to the extent that it relates to items recognized either in other comprehensive income or directly in equity, in which case it is recognized in other comprehensive income or equity, respectively. Deferred tax is provided using the balance sheet method whereby deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they are realized or settled, based on the laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is not recognized for temporary differences which arise on 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. A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(Expressed in thousands of US dollars, unless otherwise indicated)

l) Loss per share

Basic loss per share calculations are based on the net loss for the period divided by the weighted average number of common shares issued and outstanding during the respective periods.

Diluted loss per share calculations are based on the net loss attributable to common shareholders for the period divided by the weighted average number of common shares outstanding during the period plus the effects of dilutive common share equivalents. The Company uses the treasury stock method to determine the dilutive effect of stock options and other dilutive instruments. The treasury stock method assumes that proceeds received from the in-the-money options and other dilutive instruments are used to repurchase common shares at the prevailing market rate.

6. REVENUE – PROVISIONAL PRICING ADJUSTMENT

Revenue comprises provisional pricing adjustments to the Company's unsettled zinc concentrate sales. Revenue realized during the commissioning phase of Empire State Mine is recorded as a credit to mineral properties, plant and equipment (note 10).

7. OTHER OPERATING EXPENSES

a) General and administration expenses

	Year ended December 31, 2019	2018
Salaries and benefits	$ 1,824	$ 2,586
Share-based compensation	725	1,785
Office and administration	382	807
Professional fees	968	578
Amortization of right-to-use assets	158	-
Investor relations	105	343
	$ 4,162	$ 6,099

b) Exploration and evaluation expenses

	Year ended December 31, 2019	2018
Salaries and benefits	$ 732	$ 682
Assay and analyses	173	581
Contractor and consultants	2,423	5,549
Supplies	35	241
Other	127	288
	$ 3,490	$ 7,341

(Expressed in thousands of US dollars, unless otherwise indicated)

8. TRADE AND OTHER RECEIVABLES

	As at December 31, 2019	As at December 31, 2018
Trade receivables	$ 630	$ 879
GST receivable	23	43
Advances to related party	2	105
Other receivables	-	96
	$ 655	$ 1,123

9. INVENTORIES

	As at December 31, 2019	As at December 31, 2018
Ore in stockpiles	$ 50	$ 32
Concentrate stockpiles	545	905
Materials and supplies	2,031	1,765
	$ 2,626	$ 2,702

(Expressed in thousands of US dollars, unless otherwise indicated)

10. MINERAL PROPERTIES, PLANT AND EQUIPMENT

	Mineral properties	Plant and equipment	Land	Construction in progress	Total
Cost					
As at January 1, 2018	$ 3,695	$ 24,985	$ 1,081	$ 4,537	$ 34,298
Additions	-	258	-	58,019	58,277
Transfers between categories	-	785	-	(785)	-
Transfer from materials and supplies inventories	-	311	-	-	311
Change in reclamation and remediation provision	-	(697)	-	-	(697)
Capitalized revenue	-	-	-	(23,653)	(23,653)
As at December 31, 2018	3,695	25,642	1,081	38,118	68,536
Additions	-	2,726	-	33,069	35,795
Transfers between categories	-	1,809	-	(1,809)	-
Share in Manco		183		-	183
Change in reclamation and remediation provision	-	1,279	-	-	1,279
Disposals	-	-	-	(1,385)	(1,385)
Impairment of equipment	-	(199)	-	-	(199)
Capitalized revenue	-	-	-	(25,070)	(25,070)
As at December 31, 2019	$ 3,695	$ 31,440	$ 1,081	$ 42,923	$ 79,139
Accumulated depreciation					
As at January 1, 2018	$ -	$ 1,176	$ -	$ -	$ 1,176
Depreciation capitalized to construction in progress	127	2,979	-	-	3,106
As at December 31, 2018	127	4,155	-	-	4,282
Depreciation capitalized to construction in progress	227	4,122	-	-	4,349
Impairment of equipment	-	(85)	-	-	(85)
As at December 31, 2019	$ 354	$ 8,192	$ -	$ -	$ 8,546
Net book value at December 31, 2018	$ 3,568	$ 21,487	$ 1,081	$ 38,118	$ 64,254
Net book value at December 31, 2019	$ 3,341	$ 23,248	$ 1,081	$ 42,923	$ 70,593

Effective April 1, 2018, the Company determined that certain mineral property, plant and equipment were operating as management intended and, as such, the Company began to depreciate these assets over their estimated useful lives. These assets were used in the commissioning of the #4 mine and, as such, the depreciation expense associated with these assets was capitalized to construction in progress.

(Expressed in thousands of US dollars, unless otherwise indicated)

11. LEASES

a) Right-of-use assets

	Office space	Equipment	Total
As at January 1, 2019	$ 1,410	$ 862	$ 2,272
Additions	-	-	-
Changes to lease terms	(1,000)	(18)	(1,018)
Depreciation	(158)	(341)	(499)
Lease buyout	-	(370)	(370)
As at December 31, 2019	$ 252	$ 133	$ 385

The Company shares office space with other companies related to it by virtue of certain directors and management in common (note 14b). During the year ended December 31, 2019, there were changes to the amount of office space attributable to the Company, which is reflected in the table above as changes to lease terms. $341 of the depreciation of right-of-use assets related to equipment was capitalized in construction in progress.

b) Lease liabilities

	Office space	Equipment	Total
As at January 1, 2019	$ 1,410	$ 862	$ 2,272
Additions	-	-	-
Changes to lease terms	(1,000)	(18)	(1,018)
Interest accretion	38	57	95
Lease payments	(189)	(760)	(949)
Unrealized foreign exchange	17	-	17
As at December 31, 2019	$ 276	$ 141	$ 417
Current lease liabilities	$ 130	$ 141	$ 271
Non-Current lease liabilities	146	-	146
	$ 276	$ 141	$ 417

The maturity analysis of the Company's contractual undiscounted lease liabilities as at December 31, 2019 is as follows:

	< 1 year	1 to 3 years	> 3 years	Total
Lease liabilities	$ 293	$ 153	$ -	$ 446

c) Amounts recognized in Statement of Loss

	Year ended December 31, 2019
Interest on lease liabilities	$ 95
Depreciation of right-of-use assets	$ 158
Variable lease payments	$ 111
Expenses relating to short-term leases	$ 160

(Expressed in thousands of US dollars, unless otherwise indicated)

d) Amounts recognized in Statement of Cash Flows

		Year ended December 31, 2019
Payment of lease liabilities	$	949
Variable lease payments	$	111
Expenses relating to short-term leases	$	160

12. RESTRICTED CASH

Restricted cash comprises funds held in escrow for the New York State Department of Environmental Conservation as assurance for the funding of future reclamation costs associated with the Company's reclamation and remediation obligations (note 15). The funds are invested in a certificate of deposit which renews automatically for additional terms of one year or more.

13. DEBT

a) Bank indebtedness

In April 2018, the Company entered into a $15,000 secured credit agreement (the "Credit Facility") with the Bank of Nova Scotia ("Lender"). The Credit Facility is available to the Company on a revolving basis, up to maximum amounts as follows: $5,000 on closing until first shipment (completed); $10,000 from first shipment until commercial production (as defined in the credit agreement); and $15,000 on and after commercial production. The Company could choose to pay interest equal to either LIBOR plus 4.0% to 4.5% or the Lender's base rate plus 3.0% to 3.5%. The Company was also required to pay a standby fee ranging from 0.6% to 1.2% on the unadvanced portion of the Credit Facility. The maturity date was April 3, 2020.

On January 21, 2019, the Company and the Lender amended the Credit Facility whereby a maximum of $10,000 (the "Available Credit") was available to the Company on a revolving basis. Prior to March 31, 2019, the Lender was permitted to reduce the maximum amount available to $6,000, subject to the business and financial plan provided by the Company. The interest rate on the Available Credit is either LIBOR plus 4.25% or the Lender's base rate plus 3.25%, and the standby fee is 0.8% of the unadvanced portion of the Credit Facility. If the amount available is reduced to $6,000, the interest rate changes to LIBOR plus 2.25% or the Lender's base rate plus 1.25%, and the standby fee is 0.5625% of the unadvanced portion of the Credit Facility. A $6,000 guarantee was provided by a company controlled by Titan's Executive Chairman.

On May 31, 2019, the Company and the Lender further amended the Credit Facility whereby the Available Credit limit continues as $10,000 and the maturity date was extended to April 3, 2021. The interest rate on the Available Credit was changed to LIBOR plus 2.25% or the Lender's base rate plus 1.25%. In addition, the financial covenant requirement on the Credit Facility was removed.

In connection with the amendment, a $10,000 guarantee has been provided by a company controlled by Titan's Executive Chairman (the "Guarantor"), replacing the original $6,000 guarantee. In consideration for the guarantee, the Company issued 3,000,000 common shares with a fair value of $979 and 3,000,000 share purchase warrants with each warrant exercisable for one common share at price of $0.50 per share for a period of five years from the date of issuance with a fair value of $543 at the guarantee effective date for a total fair value of $1,522 recorded as borrowing costs. Such common shares and share purchase warrants were issued on June 14, 2019. The fair market values on the issuance date were $919 and $493, respectively. The difference of $110 was recorded as a gain on derivative liability during the year ended December 31, 2019.

(Expressed in thousands of US dollars, unless otherwise indicated)

As a result of the amendment, the Company extinguished the face value of the loan prior to the amendment and recorded the fair value of the new loan as at May 31, 2019. A $1,702 loss on the extinguishment of debt was recorded during the year ended December 31, 2019.

As at December 31, 2019, the Available Credit was fully drawn and the carrying value was as follows:

	Principal	Interest and borrowing costs	Total
Balance, January 1, 2018	$ -	$ -	$ -
Proceeds received	4,000	-	4,000
Borrowing costs paid	-	(302)	(302)
Accrued interest and borrowing costs	-	102	102
Amortization of borrowing costs	-	112	112
Balance, December 31, 2018	4,000	(88)	3,912
Proceeds received	6,000	-	6,000
Accrued interest and borrowing costs	-	521	521
Accrued interest and borrowing costs paid	-	(518)	(518)
Borrowing costs, shares and share purchase warrants	-	(1,522)	(1,522)
Amortization of borrowing costs	-	66	66
Loss on loan extinguishment	-	1,702	1,702
Balance, December 31, 2019	$ 10,000	$ 161	$ 10,161

	At December 31, 2019	2018
Current	$ 161	$ 3,912
Non-current	10,000	-
	$ 10,161	$ 3,912

b) Equipment loans

In December 2018, the Company financed the purchase of certain pieces of equipment. The equipment loans have a term of 36 months and bear interest at 5.95%. In March 2019, the Company returned two pieces of the financed equipment and used the proceeds to eliminate the outstanding balance of the equipment loans.

In March 2019, the Company financed the purchase of maintenance software. This loan has a term of 36 months and is non-interest bearing.

The remaining principal balance of these loans as at December 31, 2019 and 2018 were as follows:

	At December 31, 2019	2018
Current	$ 19	$ 329
Non-current	22	721
	$ 41	$ 1,050

(Expressed in thousands of US dollars, unless otherwise indicated)

14. RELATED PARTY TRANSACTIONS

a) Loan from related party

On November 30, 2018, the Company entered a credit agreement with a company controlled by Titan's Executive Chairman, to establish a $18,710 subordinate general security credit facility ("Loan"). The initial advance of $3,710 bears interest at 8% per annum and advances on the subsequent $15,000 bear interest at a floating rate equal to 7% plus the greater of (i) LIBOR and (ii) 1%, per annum. Interest is payable in cash or shares of the Company. The Loan matures on November 30, 2020, but is subject to mandatory prepayment if the Company closes one or more financings that exceeds $30,000 in the aggregate or upon the occurrence of a change of control of the Company. The Loan is a non-revolving facility, and any repayment under the Loan shall not be re-borrowed. The Company is subject to certain general covenants with respect to the Loan.

Pursuant to the Loan, the Company should issue the related party 2,500,000 warrants. Each warrant entitles the holder to acquire one common share at a price of C$1.40 per share.

On January 21, 2019, the Company issued 2,500,000 warrants to a company controlled by Titan's Executive Chairman pursuant to the credit agreement. The fair market value of these warrants was $1,099 as at December 31, 2018 and was recorded as a warrant derivative liability and borrowing costs. The fair market value on the issuance date on January 21, 2019 was $1,028. The difference between December 31, 2018 and the issuance date was recorded as a gain on derivative liability of $71 during the year ended December 31, 2019.

On August 21, 2019, the Company entered an addendum to its Loan which made an additional $1,000 available to the Company under the same terms as the original agreement. As such, the Loan was increased to a total of $19,710.

$4,015 was drawn on the Loan during the year ended December 31, 2019 leaving $nil available as at December 31, 2019. As at December 31, 2018, there was $3,015 available to be drawn under the Loan. A summary of the carrying value was as follows:

	Principal	Interest and borrowing costs	Total
Balance, January 1, 2018	$ -	$ -	$ -
Proceeds received	15,695	-	15,695
Borrowing costs, share purchase warrants	-	(1,099)	(1,099)
Accrued interest	-	167	167
Amortization of borrowing costs	-	46	46
Balance, December 31, 2018	15,695	(886)	14,809
Proceeds received	4,015	-	4,015
Accrued Interest	-	1,807	1,807
Amortization of borrowing costs	-	462	462
Balance, December 31, 2019	$ 19,710	$ 1,383	$ 21,093

	At December 31, 2019	At December 31, 2018
Current	$ 21,093	$ -
Non-current	-	14,809
	$ 21,093	$ 14,809

(Expressed in thousands of US dollars, unless otherwise indicated)

b) Management company

The Company shares office space, equipment, personnel and various administrative services with other companies related to it by virtue of certain directors and management in common. These related parties comprise Armor Minerals Inc., Tethyan Resource Corp. ("Tethyan") since February 1, 2019, Arizona Mining Inc. ("Arizona Mining") until August 10, 2018. These services have been provided through Manco, which is equally owned by the related companies.

The Company has determined that Manco is a joint arrangement whereby the related companies have joint control of the arrangement. The Company has accounted for its share of assets, liabilities, income and expenses on a line-by-line basis.

Provisions of agreements governing certain shared leases required Arizona Mining to make a payment to Manco upon each company's change of control to cover its share of the outstanding lease commitment. Arizona Mining payments were redistributed to the remaining shareholders of Manco in 2018. The Company recognized its share as a deferred rental contribution on the balance sheet in 2018. On initial application of IFRS 16 at January 1, 2019, the Company derecognized the deferred rental contribution of $1,352 with the cumulative effect recognized in retained earnings.

	Year Ended December 31, 2019	2018
Deferred rental contribution received	$ -	$ 1,588
Amortization	-	(236)
	$ -	$ 1,352

	At December 31, 2019	2018
Current	$ -	$ 436
Non-current	-	916
	$ -	$ 1,352

c) Key management personnel compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company, and comprises the Company's Executive Chairman, Chief Executive Officer, President, Chief Financial Officer, Chief Operating Officer and Directors.

	Year ended December 31, 2019	2018
Salaries and benefits	$ 1,110	$ 832
Directors' fees	198	261
Termination benefits	-	606
Share-based compensation	908	1,159
	$ 2,216	$ 2,858

	At December 31, 2019	2018
Salaries and benefits payable	$ 194	$ -
Directors' fees payable	-	20
Termination benefits payable - current	196	220
Termination benefits payable - non-current	192	367
	$ 582	$ 607

(Expressed in thousands of US dollars, unless otherwise indicated)

15. RECLAMATION AND REMEDIATION PROVISION

	Year ended December 31, 2019	2018
Balance, beginning of year	$ 14,392	$ 14,698
Accretion	275	391
Change in estimates	1,279	(697)
Balance, end of year	$ 15,946	$ 14,392

Although the ultimate amounts for future site reclamation and remediation are uncertain, the best estimate of these obligations was based on information available, including current legislation, third-party estimates and management estimates. The amounts and timing of the mine closure obligations will vary depending on several factors including future operations and the ultimate life of the Empire State Mine, future economic conditions, and changes in applicable environmental regulations.

At December 31, 2019 the estimated future cash flows have been determined using real cash flows and discounted using a real rate of 0.15% (December 31, 2018 – cash flows were determined using real cash flows and discounted at a real rate of 0.69%). The impact of the change in estimate is included in the table above.

At December 31, 2019, the total undiscounted amount for the estimated future cash flows is $19,718 (December 31, 2018 – $19,503).

16. SHARE CAPITAL AND RESERVES

a) Authorized capital

The Company's authorized share capital consists of an unlimited number of Class A common shares without par value. At December 31, 2019, the Company had 122,970,757 (December 31, 2018 - 101,970,757) common shares issued and outstanding.

b) Share capital

In consideration for a $10,000 guarantee provided by a company controlled by Titan's Executive Chairman in connection with the bank indebtedness amendment (note 13a), on June 14, 2019, the Company issued 3,000,000 common shares with a fair value of $919 and 3,000,000 share purchase warrants with each warrant exercisable for one common share at price of $0.50 per share for a period of five years from the date of issuance with a fair value of $493.

On October 10, 2019, the Company closed a private placement consisted of 18 million units at Cdn $0.35 per unit for aggregate gross proceeds of $4,738 (Cdn $6,300). Each unit is comprised of one common share and one-half of a warrant of the Company. Each full warrant is exercisable into one common share of the Company at an exercise price of Cdn $0.50 per share for a period of five years from the closing date of the private placement. The fair market value of these warrants was $812 based on the Black-Scholes model (note 16d). The Offering was subscribed to by directors and officers of the Company. Aggregate insider participation in the Offering was approximately 84% (15,185,716 units in aggregate).

There were no common shares issued during the year ended December 31, 2018.

c) Stock options

The Company's stock option plan provides for the issuance of options that shall not at any time exceed 10% of the total number of issued and outstanding common shares of the Company as at the date of grant of the options. The Company may grant options to directors, officers, employees, consultants and other personnel of the Company. The exercise price of each option is determined by the Board of Directors but cannot be lower than the previous day's closing market price of the Company's shares on the date of grant. The options vest and become exercisable as determined by the Board of Directors at the time of the grant. Unless determined otherwise by the Board of Directors, the options expire within five years from the date of grant.

For the year ended December 31, 2019, the Company recognized share-based compensation expense of $804 (2018 – $1,785), of which $79 (2018 – $Nil) was capitalized to construction in progress. The following table shows the change in the Company's stock options during the years ended December 31, 2019 and 2018:

	2019		2018	
	Number of options ('000s)	Weighted-average exercise price (in C$)	Number of options ('000s)	Weighted-average exercise price (in C$)
Outstanding, start of the year	9,170	1.40	5,965	1.40
Granted	-	-	4,855	1.40
Forfeited	(1,632)	1.40	(1,650)	1.40
Outstanding, end of the year	7,538	1.40	9,170	1.40
Exercisable, end of the year	4,990	1.40	2,873	1.40

There were no options granted during the year ended December 31, 2019. For the options granted during the year ended December 31, 2018, the weighted average fair value was estimated at C$0.74 per option based on the Black-Scholes model using the following assumptions:

Assumptions	2018
Risk-free interest rate	2.20%
Expected life	5 years
Expected volatility (1)	71.66%
Grant date weighted-average share price (2)	C$1.28
Expected dividend yield	-

(1) The expected volatility was based on comparable companies.
(2) The exercise price on 5,675,000 options originally granted in 2017 at C$1.00 was subsequently adjusted to C$1.40 following the IPO.

The following table provides information on outstanding and exercisable stock options at December 31, 2019.

Grant Date	Exercise price (in C$)	Number of Options outstanding ('000s)	Weighted-average remaining contractual life (years)	Number of Options exercisable ('000s)
June 1, 2017	1.40	2,990	2.4	2,293
June 29, 2017	1.40	400	2.5	400
October 11, 2017	1.40	150	2.8	100
November 13, 2017	1.40	175	2.9	117
January 18, 2018	1.40	583	3.1	250
February 23, 2018	1.40	250	3.2	83
August 13, 2018	1.40	1,665	3.6	755
September 17, 2018	1.40	500	3.7	167
October 9, 2018	1.40	825	3.8	825
	1.40	7,538	3.0	4,990

d) Share purchase warrants

There were no share purchase warrants issued during the year ended December 31, 2018. The following table shows the change in the Company's share purchase warrants during the year ended December 31, 2019.

	Number of share purchase warrants ('000s)	Weighted-average exercise price (in C$)	Weighted-average life remaining (years)
Outstanding, December 31, 2018	-	-	-
Granted	14,500	0.66	4.59
Outstanding, December 31, 2019	14,500	0.66	4.59

For the share purchase warrants granted during the year ended December 31, 2019, the weighted average fair value was estimated at $0.16 (C$0.21) per share purchase warrant based on the Black-Scholes model using the following assumptions:

Assumptions	2019
Risk-free interest rate	1.47%
Expected life	5 years
Expected volatility [1]	69.54%
Grant date weighted-average share price	C$0.43
Fair value of warrants granted	C$0.21
Expected dividend yield	-

(1) The expected volatility was based on comparable companies.

The following table provides information on outstanding and exercisable share purchase warrants at December 31, 2019.

Expiry Date	Fair market value (in US$)	Exercise price (in C$)	Number of warrants outstanding ('000s)	Weighted-average remaining contractual life (years)	Weighted-average fair value per warrants (in C$)
January 21, 2024	1,028	1.40	2,500	4.1	0.55
June 14, 2024	493	0.50	3,000	4.5	0.22
October 10, 2024	812	0.50	9,000	4.8	0.12
	2,333	0.66	14,500	4.6	0.21

17. INCOME TAXES

The provision for income taxes reported differs from the amount computed by applying the cumulative Canadian federal and provincial income tax rates to the loss before the tax provision due to the following:

	Year ended December 31, 2019	2018
Net loss for the year	$ (10,886)	$ (15,857)
Statutory income tax rate	27%	27%
Expected income tax recovery	(2,939)	(4,281)
Difference in tax rates	32	118
Impact of tax reform in United States	-	-
Permanent differences	707	659
Temporary differences not recognized	2,200	3,504
	$ -	$ -

There were no corporate income tax rates changes in both US and Canadian federal and State/Province during the year ended December 31, 2019. On December 22, 2017, the United States government enacted the US Tax Cuts and Jobs Act ("Act"). The Act includes a range of legislative changes including a reduction of the US federal corporate income tax rate from 35% to 21% effective January 1, 2018. The British Columbia September 2017 Budget Update increased the general corporate income tax rate from 11% to 12%, effective January 1, 2018.

No deferred tax asset has been recognized in respect of the following losses and deductible temporary differences as it is not considered probable that sufficient future taxable profit will allow the deferred tax assets to be recovered. The components of unrecognized deferred tax assets are as follows:

	Year ended December 31, 2019	2018
Deferred tax assets:		
Non-capital losses available	$ 5,962	$ 4,106
Reclamation and remediation	479	73
Resource tax pools in excess of net book value	1,658	1,629
Share issue costs and others	574	1,115
	8,673	6,923
Deferred tax assets not recognized	(8,673)	(6,923)
Deferred tax asset	$ -	$ -

The Company recognizes tax benefits on losses or other deductible amounts where the probable criteria for the recognition of deferred tax assets has been met. At December 31, 2019, the Company has unrecognized Canadian tax loss carry forwards of approximately $10,895 (2018 – $5,073) which expire between 2036 to 2039, and unrecognized US tax loss carry forwards of approximately $11,558 (2018 - $10,473) of which the 2017 tax losses expire in 2037 and the 2018 and 2019 tax losses carry forward indefinitely.

18. CONTINGENCIES

a) On December 30, 2016, pursuant to an agreement between the Company,Titan Mining (US) Corporation (a wholly owned US subsidiary of the Company), Star Mountain Resources, Inc., Northern Zinc, LLC, and certain other parties (the “Purchase Agreement”), Titan (US) Corporation acquired from Northern Zinc 100% of the issued and outstanding shares of Balmat Holdings Corp. and its wholly owned subsidiary, St. Lawrence Zinc Company, LLC, which owned the Empire State Mine.

   On or about March 12, 2018, the Company received a letter from legal counsel to SGS Acquisition Company Limited (“SGS”) dated March 9, 2018. The letter states that in 2016 SGS filed an action in the US District Court for the District of Colorado against certain parties including Star Mountain. The Company is not a named party in that case. SGS alleges the Company (a) has obligations to SGS under mutual indemnification provisions to Star Mountain for the breach of any representations, warranties or breaches of covenants under the Purchase Agreement and (b) failed to conduct its due diligence in connection with the Purchase Agreement, which allegedly interfered with SGS’s ability to recover from Star Mountain. SGS is not a party to the Purchase Agreement. SGS states that “the net economic benefits lost to SGS resulting from Star Mountain’s acts, and by extension, the Company, amount to approximately $28,300.” The Company believes these claims are wholly without merit.

b) The acquisition obligation owing to Star Mountain remains outstanding pending, among other things, the outcome of a claim brought against Star Mountain by Aviano Financial Group LLC ("Aviano"). The Company received notice on October 10, 2017 that Aviano, a creditor of Star Mountain, intended to amend a pre-existing action initially filed in February 2017 in Colorado against Star Mountain to collect debts owing by Star Mountain to Aviano aggregating approximately $800. The amended action of Aviano against Star Mountain was filed in the state of Colorado on October 12, 2017, adding claims for damages and a claim to set aside the alleged conveyance of Empire State Mine by Star Mountain to the Company alleging that it was a fraudulent conveyance. In addition, the Aviano notice stated that it intends to file an analogous action in New York alleging fraudulent conveyance, naming Star Mountain and the Company as defendants. While subsequent claims were filed by Aviano against Star Mountain, as of the date hereof, no litigation has been commenced by Aviano against the Company. The Company believes that the claim of fraudulent conveyance alleged by Aviano is wholly without merit and will defend against any action by Aviano if and when commenced.

   On or about February 21, 2018, Star Mountain filed a voluntary petition commencing a Chapter 11 bankruptcy in the United States Bankruptcy Court for the District of Arizona. The filing of the bankruptcy case stayed the SGS and Aviano litigation against Star Mountain. The bankruptcy court has confirmed a Chapter 11 plan of liquidation in the bankruptcy proceedings, which went effective on July 8, 2019. The Chapter 11 plan provides for the appointment of a Plan Trustee to liquidate all of the remaining assets owned by Star Mountain, including causes of action owned by Star Mountain. The Chapter 11 plan indicates that the Plan Trustee will investigate, and may pursue, potential fraudulent conveyance claims against the Company. In August of 2019, the Plan Trustee sent a written demand to the Company to perform what the Plan Trustee asserts are the Company's remaining monetary obligations under the Purchase Agreement.

   On November 19, 2019, the Plan Trustee filed a Complaint against the Company, Titan (US) Corporation, and certain former officers and directors of Star Mountain with the Arizona bankruptcy court, and on February 21, 2020 (in response to a motion to dismiss filed by the Company and Titan (US) Corporation) the Plan Trustee filed an Amended Complaint. In his Amended Complaint, and as to the Company and Titan (US) Corporation, the Plan Trustee asserts: (a) a claim that the transaction under the Purchase Agreement should be avoided as a fraudulent conveyance under federal bankruptcy and state law; and (b) as purported alternative claims, that the Company and Titan (US) Corporation have breached their remaining payment obligations to Star Mountain related to the Purchase Agreement. The Company and Titan (US) Corporation believe that the Plan Trustee's claims are wholly without merit, and they will continue to aggressively defend against the claims.

The Company believes that the potential claim of fraudulent conveyance alleged by Aviano , and all of the claims asserted by the Plan Trustee against the Company and Titan (US) are wholly without merit. Irrespective of the merits of any such claims, however, if a fraudulent conveyance claim is resolved adversely against the Company, this could materially adversely affect the Company by terminating its interest in Empire State Mine or by potentially resulting in a significant damage claim. Such a result would have a significant negative impact on the Company and could have a material effect on these financial statements.

c) During 2018, disputes arose between Dumas Contracting USA Inc. and related parties (collectively, "Dumas") and the Company in relation to various matters concerning or relating to the Amended and Restated Empire State Mine Rehabilitation and Contract Mining Project Contract dated August 16, 2018 ("Contract"), certain equipment and equipment leases and performance guarantees provided by Dumas and the Company. Dumas, as claimant, served a Claimant's Notice of Arbitration/Notice of Request to Arbitrate on the Company ("Arbitral Proceedings"); and filed with the Clerk of St. Lawrence County, New York a Notice of Mechanic's Lien dated November 20, 2018 against the premises ("Lien Proceedings"). Dumas, as plaintiff, commenced legal proceedings against the Company ("Legal Proceedings"); and Dumas, as lienor, filed with the Clerk of St. Lawrence County, New York a Notice of Mechanic's Lien dated November 20, 2018 against the premises ("Dumas Lien Proceedings").

On January 11, 2019, the Company entered into a settlement agreement with Dumas which was subsequently amended on March 26, 2019 setting out a revised payment schedule and increased the interest rate from prime base rate for Canadian dollar commercial loans plus 2% to 12%.

Upon payment of the first instalment, the Arbitral Proceedings were dismissed and title in the four pieces of equipment were transferred to the Company. Upon payment of the entire settlement sum and accrued interest, the Lien Proceedings and Dumas Lien Proceedings will be dismissed. Upon payment of the entire settlement sum and accrued interest, as well as the demobilization and return of a bolter to Dumas, the Legal Proceedings will be dismissed. The bolter was returned to Dumas on October 16, 2019.

On October 22, 2019, Dumas filed an Extension of Notice of Mechanic's Lien with the Clerk of St. Lawrence County, New York. and on October 30, 2019, filed a Statement of Claim in the Ontario Superior Court of Justice for the balance of outstanding accounts payable plus accrued interest. On December 5, 2019 the Company filed a Statement of Defense after denying certain allegations in the claim. The Company recorded such liabilities as at December 31, 2019 and believes this lawsuit will not have a material impact on its financial position or results of operations.

(Expressed in thousands of US dollars, unless otherwise indicated)

19. FINANCIAL INSTRUMENTS

a) Carrying amount versus fair value

Set out below is a comparison by class of the carrying amounts and fair value of the Company's financial instruments, other than those whose carrying amounts are a reasonable approximation of fair value:

	At December 31, 2019		At December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Lease liabilities	$ 417	$ 483	$ -	$ -
Bank indebtedness	$ 10,161	$ 10,155	$ 3,912	$ 4,087
Equipment loans	$ 41	$ 32	$ 1,050	$ 1,050
Loan from related party	$ 21,093	$ 21,429	$ 14,809	$ 15,715

Management assessed that the fair values of cash and cash equivalents, other receivables, and accounts payable approximate their carrying amounts due to the short-term maturities of these instruments, and the fair value of acquisition obligations approximate their carrying value as they are non-interest bearing. Trade receivables subject to provisional pricing are already carried at fair value.

Fair values of the Company's lease liabilities, bank indebtedness, equipment loans, and loan from related-party are determined by using discounted cash flow models that use discount rates that reflect the issuer's borrowing rate as at the end of the reporting period.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value.

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

Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (interest rate, yield curves), or inputs that are derived principally from or corroborated observable market data or other means.

Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

All financial instruments measured at fair value use Level 2 valuation techniques.

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

b) Risk management objectives and policies

The Company's principal financial liabilities comprise accounts payable, debt, lease liabilities and loan from related party. The main purpose of these financial instruments is to manage short-term cash flow and raise finance for the Company's capital expenditures. The Company's principal financial assets comprise cash and cash equivalents, trade receivables, restricted cash and other receivables that arise directly from its operations.

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The Company manages risks to minimize potential losses. The main objective of the Company's risk management process is to ensure that the risks are properly identified and that the capital base is adequate in relation to those risks. The Company's risk exposure and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations.

The Company is exposed to credit risk with respect to its cash and cash equivalents, trade receivables and other receivables. The Company's maximum exposure to credit risk is the amount disclosed in the consolidated statements of financial position.

Credit risk associated with cash and cash equivalents is minimized by placing the majority of these instruments with major Canadian financial institutions with strong investment-grade ratings as determined by a primary ratings agency.

Credit risk associated with trade receivables is managed by dealing with a reputable international metals trading company. The Company typically receives provisional payments of up to 90% of the value of each shipment within days after delivery. The Company assesses and monitors risk by performing an aging analysis of its trade receivables.

Liquidity risk

Liquidity risk represents the risk that the Company will be unable to meet its obligations associated with its financial liabilities. The Company manages liquidity risk by preparing an annual budget for approval by the Board of Directors and preparing cash flow and liquidity forecasts on, at minimum, a quarterly basis. The Company maintains credit facilities and endeavours to maintain sufficient cash balances to meet its liquidity requirements at any point in time.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market factors. Market risk comprises three types of risk: price risk, interest rate risk and currency risk.

Price risk

Price risk is the risk that the fair value of future cash flows of the Company's financial instruments will fluctuate because of changes in market prices.

The Company is exposed to the risk of fluctuations in prevailing market commodity prices for zinc which it sells into global markets. The market price of zinc is a key driver of the Company's capacity to generate cash flow. The Company is an unhedged producer to provide its shareholders with exposure to the changes in the market price of zinc.

Management has estimated the impact on profit before tax for changes in zinc prices on the fair value of provisionally priced trade receivables. Based on the December 31, 2019 balance, and assuming all other variables remain constant, a 10% change in zinc prices would increase/decrease provisionally priced trade receivables and revenue by $697.

Interest rate risk

Interest rate risk is the risk that the fair values and future cash flows of the Company will fluctuate because of changes in market interest rates.

The Company is exposed to interest rate risk to the extent that the cash maintained at financial institutions is subject to a floating rate of interest. The interest rate risk on cash is considered insignificant due to the low interest rates in the current economic environment and short-term nature of its holdings and as such the Company does not take any actions to manage interest rate risk.

The Company is exposed to interest rate cash flow risk on certain long-term debt amounts as the payments will fluctuate during their term with changes in the interest rate. The Company manages its interest rate risk by having a balanced portfolio of fixed and variable rate loans and borrowings. Approximately 87% of the Company's portfolio of loans and borrowings bear interest at variable rates. Based on the principal owing at December 31, 2019, and assuming all other variables remain constant, a 1% change in the LIBOR rate would result in an increase/decrease of $260 in the annual interest expense.

Currency risk

Currency risk is the risk that the fair values or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currency exchange rates.

The Company's currency risk primarily arises from financial instruments denominated in US dollars that are held at the parent company level, as the functional currency of the parent company is Canadian dollars. Conversely for the Company's subsidiaries whose functional currency is US dollars, currency risk primarily arises from financial instruments denominated in Canadian dollars that are held at the subsidiary company level. The Company does not consider the currency risk to be material to the future operations of the Company and, as such, does not have a hedging program or any other programs to manage currency risk.

20. SEGMENTED INFORMATION

The Company operates one reportable segment, the Empire State Mine. The Company's non-current assets located in the United States total $72,400 and those located in Canada total $435.

21. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development and exploration of its mineral properties and to maintain a flexible capital structure, which optimizes the costs of capital to an acceptable risk.

The capital structure of the Company currently consists of common shares and debt financing. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions, its expected funding requirements, and risk characteristics of the underlying assets. The Company's funding requirements are based on cash forecasts. In order to maintain or adjust the capital structure, the Company may issue new debt, new shares and/or consider strategic alliances. Management reviews its capital management approach on a regular basis. The Company is not subject to any externally imposed capital requirements.

(Expressed in thousands of US dollars, unless otherwise indicated)

22. SUPPLEMENTARY CASH FLOW INFORMATION

	Year ended December 31,	
	2019	2018
Non-cash investing and financing activities	$	$
Change in accounts payable and accrued liabilities with respect to construction in progress	2,827	2,343
Change in accounts payable and accrued liabilities with respect to inventories	294	276
Equipment purchases financed with debt	344	1,050
Common shares and warrants issued as borrowing costs	1,412	-
Proceeds on sale of equipment used to repay debt	1,318	-
Proceeds on sale of equipment used to reduce accounts payable	37	-
Change in reclamation and remediation asset	1,279	697
Transfers from right-of-use asset to equipment	370	-
Deferred rental contributions written off due to accounting policy change	1,352	-
Non-cash additions to construction in progress	420	-

23. SUBSEQUENT EVENT

Subsequent to December 31, 2019, the Company received an additional $1,000 loan from Augusta on the same terms and conditions as the original Loan (note 14a). As such, the loan from related party was increased to a total of $20,710 and the additional loan amount is subject to shareholder and TSX approval.