



Contact Gold Corp.
(formerly Winwell Ventures Inc.)
An exploration stage company

CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2018

(Expressed in Canadian dollars)

Independent auditor's report

To the Shareholders of
Contact Gold Corp.

Opinion

We have audited the consolidated financial statements of **Contact Gold Corp.** [the "Company"], which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, consolidated statement of shareholders' equity and consolidated statement 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, 2018 and 2017 and its consolidated financial performance and its consolidated cash flows for the years 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 2 in the consolidated financial statements, which indicates that the Company incurred a comprehensive loss of \$8.57M during the year ended December 31, 2018. As stated in note 2, these events or conditions, along with other matters as set forth in note 2, 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.

Vancouver, Canada
April 3, 2019

Ernst + Young LLP

Chartered Professional Accountants

Contact Gold Corp.
Consolidated Statements of Financial Position

(Expressed in Canadian dollars)

As at

	December 31, 2018	December 31, 2017
	<u>\$</u>	<u>\$</u>
Assets		
<i>Current assets</i>		
Cash and cash equivalents	545,164	6,176,258
Receivables and prepaids (Note 5)	488,517	586,976
Deferred share issue cost (Note 9(f))	313,220	-
Total current assets	<u>1,346,901</u>	<u>6,763,234</u>
<i>Non-current assets</i>		
Deposit (Note 5)	204,630	188,545
Fixed assets	29,800	-
Exploration properties and deferred acquisition costs (Note 6)	39,279,953	38,472,499
Total non-current assets	<u>39,514,383</u>	<u>38,661,044</u>
Total assets	<u>40,861,284</u>	<u>45,424,278</u>
Liabilities and shareholders' equity		
<i>Current liabilities</i>		
Payables and accrued liabilities (Notes 7 and 11)	885,931	491,960
Other current liabilities (Note 6(d))	35,073	32,252
Total current liabilities	<u>921,004</u>	<u>524,212</u>
<i>Non-current liabilities</i>		
Convertible preferred shares (Note 8)	11,589,700	9,466,747
Other non-current liabilities (Note 6(d))	75,029	85,089
Total non-current liabilities	<u>11,664,729</u>	<u>9,551,836</u>
Total liabilities	<u>12,585,733</u>	<u>10,076,048</u>
<i>Shareholders' Equity</i>		
Share capital (Note 9)	41,147,781	41,000,559
Contributed surplus (Notes 9(d) and 9(e))	1,995,449	650,284
Accumulated other comprehensive income (loss)	499,651	(2,790,375)
Accumulated deficit	(15,367,330)	(3,512,238)
Total shareholders' equity	<u>28,275,551</u>	<u>35,348,230</u>
Total liabilities and shareholders' equity	<u>40,861,284</u>	<u>45,424,278</u>

Basis of presentation and going concern (Note 2(a))

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

Approved by the Board of Directors:

"Riyaz Lalani", Director

"John Dorward", Director

Contact Gold Corp.
Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars, except share amounts)

	Year ended December 31, 2018	Year ended December 31, 2017
	<u>\$</u>	<u>\$</u>
Operating expenses:		
Exploration and evaluation expenditures (Notes 6 and 9(d))	4,447,379	4,262,695
Loss on disposal of exploration properties (Note 6(e))	1,962,061	-
Accretion of Preferred Share obligation (Note 8)	1,842,900	899,655
Stock-based compensation (Notes 9(d) and 9(e))	1,202,235	569,514
Wages and salaries	1,070,348	428,411
Investor relations, promotion and advertising	502,384	321,428
Professional, legal & advisory fees	421,946	831,545
Foreign exchange loss (gain)	542,343	(618,788)
Administrative, office and general	240,914	178,292
Write-down of exploration property (Note 6(e))	85,176	-
Accretion of Cobb Creek obligation (Note 6(d))	22,249	2,298
Listing Expense (Note 4(a))	-	2,200,747
Interest and other income	(23,582)	(38,000)
Gain on change in fair value of embedded derivatives (Note 8)	(461,261)	(5,799,607)
	<u>11,855,092</u>	<u>3,238,190</u>
Loss before income taxes		
	11,855,092	3,238,190
Income taxes	-	-
	<u>11,855,092</u>	<u>3,238,190</u>
Loss for the year		
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income (loss)		
Exchange difference on translation of foreign operations (Note 6(e))	3,290,026	(2,790,375)
	<u>8,565,066</u>	<u>6,028,565</u>
Loss and comprehensive loss for the year		
	8,565,066	6,028,565
Loss per Contact Share (Note 9(g))		
Basic and diluted loss per share	\$ 0.23	\$ 0.10
Weighted average number of Contact Shares (basic and diluted)	50,572,328	32,278,496

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

Contact Gold Corp.
Consolidated Statements of Shareholders' Equity

(Expressed in Canadian dollars, except share amounts)

	Common Shares					
	Shares	Amount	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity (deficiency)
	(Notes 4, 6(a), 6(b) and 9 #)	\$	(Notes 9(c) and (d))		\$	\$
Balance as at December 31, 2016	2,769,486	250	-	-	(274,048)	(273,798)
Shares issued pursuant to private placements	23,815,000	21,157,500	-	-	-	21,157,500
Equity attributable to RTO	5,000,000	2,769,486	-	-	-	2,769,486
Shares issued pursuant to acquisition of Clover	18,550,000	18,550,000	-	-	-	18,550,000
Shares issued pursuant to acquisition of Pony Spur and Poker Flats	112,500	84,375	-	-	-	84,375
Stock-based compensation	100,000	-	650,284	-	-	650,284
Share issue costs	-	(1,561,052)	-	-	-	(1,561,052)
Cumulative translation adjustment	-	-	-	(2,790,375)	-	(2,790,375)
Loss for the year	-	-	-	-	(3,238,190)	(3,238,190)
Balance as at December 31, 2017	50,346,986	41,000,559	650,284	(2,790,375)	(3,512,238)	35,348,230
Shares issued pursuant to acquisition of East Bailey property	250,000	112,500	-	-	-	112,500
Stock-based compensation	-	34,722	1,345,165	-	-	1,379,887
Cumulative translation adjustment	-	-	-	3,290,026	-	3,290,026
Loss for the year	-	-	-	-	(11,855,092)	(11,855,092)
Balance as at December 31, 2018	50,596,986	41,147,781	1,995,449	499,651	(15,367,330)	28,275,551

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

Contact Gold Corp.
Consolidated Statement of Cash Flows

(Expressed in Canadian dollars)

	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$
Cash flows from operating activities		
Loss for the year	(11,855,092)	(3,238,190)
Adjusted for:		
Movements in working capital:		
Receivables (Note 5)	7,529	(20,429)
Prepays (Note 5)	11,922	(399,007)
Payables and accrued liabilities (Note 7)	393,971	231,890
Gain relating to change in fair value of embedded derivatives (Note 8)	(461,261)	(5,799,607)
Accretion of Contact Preferred Shares-host (Note 8)	1,842,900	899,655
Foreign exchange relating to Contact Preferred Shares (Note 8)	741,314	(620,321)
Stock-based compensation (Note 9(d))	1,379,887	650,284
Write-down of exploration property (Note 6(e))	85,176	-
Loss on disposal of exploration properties (Note 6(e))	1,962,061	-
Foreign exchange impact on translation of cash balances during the period	(198,971)	1,534
Accretion of Cobb Creek obligation (Note 6(d))	22,249	2,298
Amortization	8,514	-
Listing expense	-	2,200,747
Net cash used in operating activities	<u>(6,059,801)</u>	<u>(6,091,146)</u>
Cash flows from investing activities		
Purchase of equipment	(38,314)	-
Transaction costs relating to acquisition of exploration properties (Notes 6(a))	(31,643)	(155,902)
Annual payment for Cobb Creek obligation (Notes 6(d))	(38,871)	-
Acquisition of Clover	-	(6,800,000)
Transaction costs relating to acquisition of Clover	-	(586,073)
Purchase of short-term investments	-	(3,500,000)
Maturing of short-term investments	-	3,500,000
Cash received from RTO	-	361,658
Cash deposits for bonding and exploration activities	-	(188,545)
Cash receipt from disposal of assets	639,959	-
Net cash due to (used in) investing activities	<u>531,131</u>	<u>(7,368,862)</u>
Cash flows from financing activities		
Cash received from issuances of Contact Shares	-	21,157,500
Deferred share issue costs paid (Notes 9(f))	(313,220)	(1,561,052)
Interest income on cash and cash equivalents	-	37,508
Net cash generated from (used for) financing activities	<u>(313,220)</u>	<u>19,633,956</u>
Effects of exchange rates changes on the balance of cash held in foreign currencies	210,796	2,060
Net increase (decrease) in cash	(5,631,094)	6,176,008
Cash, beginning of year	<u>6,176,258</u>	<u>250</u>
Cash, end of the year	<u>545,164</u>	<u>6,176,258</u>
Supplemental cash flow information (Note 13)		

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

CONTACT GOLD CORP. (formerly Winwell Ventures Inc.)

Notes to the Consolidated Financial Statements

for the year ended December 31, 2018

(Expressed in Canadian dollars, unless otherwise noted)

1. NATURE OF BUSINESS

Contact Gold Corp. (the "Company", or "Contact Gold") (formerly Winwell Ventures Inc., "Winwell"), was incorporated under the Business Corporations Act (Yukon) on May 26, 2000, and was continued under the *Business Corporations Act (British Columbia)* (the "Act") on June 14, 2006.

Winwell was renamed Contact Gold on June 7, 2017, and continued under the laws of the State of Nevada immediately prior to the closing of the Transactions described at Note 4. The Company began trading on the TSX Venture Exchange ("TSXV") under the symbol "C" on June 15, 2017.

The Company is an exploration stage business engaged in the acquisition, exploration and development of exploration properties in Nevada. The Company is domiciled in Canada and maintains a head office at 1050-400 Burrard St., Vancouver, BC, Canada.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation and going concern

These consolidated financial statements for the year ended December 31, 2018 (the "Consolidated Financial Statements"), have been prepared in accordance with International Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), on a historical cost basis, except for derivative financial instruments which have been measured at fair value, and are presented in Canadian dollars, except where otherwise indicated.

For the period June 7, 2017 to December 31, 2018, inclusive, the Company's subsidiaries and their geographic locations are as follows:

Name of subsidiary	Principal activity	Location	Ownership interest
Carlin Opportunities Inc. ("Carlin")	Holding company	Canada	100%
Clover Nevada II LLC ("Clover")	Mineral exploration	United States	100%

Pursuant to having completed a reverse-acquisition ("RTO") transaction on June 7, 2017 (Note 4(a)), Carlin has been identified as the accounting acquirer and is presented in the Consolidated Financial Statements as the parent company. The comparative financial information presented in the Consolidated Financial Statements thus reflects only the assets, liabilities and operations of Carlin since its incorporation through to the date of the RTO. All significant intercompany transactions are eliminated on consolidation.

Through the year ended December 31, 2018, the Company recognized a comprehensive loss of \$8.57 million. As at December 31, 2018, Contact Gold has an accumulated deficit of \$15.37 million, and working capital of \$0.43 million. The Company has not generated significant revenues or cash flows from operations since inception and does not expect to do so for the foreseeable future. Contact Gold's continuation as a going concern depends on its ability to successfully raise financing. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms acceptable to the Company; therefore giving rise to a material uncertainty which may cast significant doubt as to whether Contact Gold's cash resources and working capital will be sufficient to enable the Company to continue as a going concern for the 12-month period after the date of these Consolidated Financial Statements.

Consequently, management is pursuing various financing alternatives to fund operations and advance its business plan (Note 16(a)). To facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Company may determine to reduce the level of activity and expenditures, or divest of certain mineral property assets, to preserve working capital and alleviate any going concern risk.

The Consolidated Financial Statements have been prepared on a going concern basis that contemplates the realization of assets and discharge of liabilities at their carrying values in the normal course of business for the foreseeable future; and do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern

The Board of Directors of the Company (the "Board") authorised the Consolidated Financial Statements on April 3, 2019.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Foreign exchange

In order to enhance comparability with our peers, the presentation currency of these financial statements is the Canadian dollar ("CAD").

Items included in the Consolidated Financial Statements are measured using the currency of the primary economic environment in which the Company operates (the "functional currency"). Each of Carlin and Contact Gold Corp. raise financing and incur expenditures in CAD, giving rise to a CAD functional currency; Clover incurs expenditures and receives funding from the Company in United States dollars ("USD"), and accordingly has a USD functional currency.

In preparing the Consolidated Financial Statements, transactions in currencies other than the Company's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary assets and liabilities that are in a currency other than CAD are retranslated at the rates prevailing at that date, giving rise to foreign exchange gains and losses in the consolidated statements of loss and comprehensive loss. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case, the exchange rates at the dates of the transactions are used. Equity transactions are translated using the exchange rate at the date of the transaction. Exchange differences arising from assets and liabilities held in foreign currencies are recognised in other comprehensive loss as cumulative translation adjustments.

c. Cash and cash equivalents

The Company considers cash in banks, deposits in transit, and highly liquid term deposits with original maturities of three months or less to be cash. Because of the short maturity of these instruments, the carrying amounts approximate their fair value. Restricted cash, if any, is excluded from cash and cash equivalents and is included in long-term assets.

d. Exploration property acquisition costs

Exploration property acquisition costs are capitalized. Capitalized acquisition costs are written down in the period in which it is determined that the exploration property has no future economic value. Capitalized amounts may be impaired if future cash flows, including potential sales proceeds, related to the property are estimated to be less than the carrying value of the property. Management of Contact Gold reviews the carrying value of each exploration property interest periodically, and whenever events or changes in circumstances indicate that the carrying value may not be recoverable, the amount is adjusted.

Although management of Contact Gold take steps to verify title to exploration properties in which it holds an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

Upon disposal or abandonment, any consideration received is credited against the carrying amount of the exploration and evaluation assets, with any excess consideration greater than the carrying amount included as a gain in profit or loss.

e. Mineral property claims maintenance fees

Claim maintenance fees paid to the United States' Department of Interior's Bureau of Land Management (the "BLM") and similar fees paid to state and municipal agencies, as well as fees paid annually pursuant to private property lease and other similar land use arrangements (together, "Claims Maintenance fees"), are accounted for as prepaid assets and amortized over the course of the period through which they provide access and title. Prepaid Claims Maintenance fees are written down in the period in which it is determined that the related exploration property has no future economic value.

f. Exploration and development expenditures

With the exception of Claims Maintenance fees, exploration expenditures are expensed as incurred. When it has been established that a mineral deposit can be commercially mined and a decision has been made to formulate a mining plan (which occurs upon completion of a positive economic analysis of the mineral deposit), the costs subsequently incurred to develop the mine prior to the start of mining operations will be capitalized. Capitalized amounts may be written down if future cash flows, including potential sales proceeds, related to an exploration property are estimated to be less than the carrying value of the property. To date, no amounts have been capitalized in respect of development activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Impairment

At each reporting date, capitalized exploration property acquisition costs are evaluated for impairment by management whenever events or changes in circumstances indicate that the carrying value is impaired and may not be recoverable.

For capitalized exploration property costs, Contact Gold follows the guidance in IFRS 6, *Exploration for and Evaluation of Mineral Resources* to determine whether capitalized exploration property costs are impaired. This determination requires significant judgment. Impairment indicators relevant for exploration and evaluation properties include whether the rights to explore the area of interest have expired during the period or will expire in the near future, and the rights are not expected to be renewed, substantive expenditure of further exploration and evaluation is not planned or budgeted, the activities have not led to a discovery of commercial reserves and the Company has decided not to continue such activities in the area of interest or deteriorating local conditions such that it may become unsafe to continue operations.

If an impairment indicator is identified, management will perform an impairment test. If the recoverable amount of the capitalized exploration property costs is less than the carrying amount, an impairment loss will be recorded in the financial statements.

Past impairments (if any) are also considered at each reporting period and where there is an indication that an impairment loss may have decreased, the recoverable amount is calculated as outlined above to determine the extent of the recovery. If the recoverable amount of the asset is more than its carrying amount, the carrying amount of the asset is increased to its recoverable amount and the impairment loss is reversed in profit or loss for that period. The increased carrying amount due to reversal will not be more than what the depreciated historical cost would have been if the impairment had not been recognized. Additionally, the review of impairment indicators takes into account factors such as political, social and legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding its projects.

h. Provisions for Constructive Obligations

Provisions for environmental restoration, restructuring costs and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, when it is probable that an outflow of resources will be required to settle the obligation and when the amount has been reasonably estimated. Provisions are not recognized for future operating losses.

Constructive obligations are obligations that derive from actions of Contact Gold where:

- i. An established pattern of past practice, published policies, or a sufficiently specific current statement in which the Company has indicated to other parties that it will accept certain responsibilities; and
- ii. As a result, the Company has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Contact Gold records provisions for closure and reclamation on the best estimate of costs for site closure and reclamation activities that the Company is legally or constructively required to remediate and the liability is recognized at the time environmental disturbance occurs. The resulting costs are capitalized to the corresponding asset. The provision for closure and reclamation is estimated using expected cash flows and discounted using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The capitalized amount is depreciated on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation, the offset of which is charged to the consolidated statements of loss and comprehensive loss, and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation costs.

Changes in closure and reclamation estimates are accounted for as a change in the corresponding capitalized cost. Expenditures of rehabilitation projects for which a provision has been recorded are recorded directly against the provision as incurred, most of which are incurred at the end of the life of the mine.

Reflecting the level of disturbance as at December 31, 2018, the Company had not accrued any provision for reclamation.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2018

(Expressed in Canadian dollars, unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

i. Financial assets and liabilities

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

In general, fair values determined by Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets. Fair values determined by Level 2 inputs utilize data points that are observable such as quoted prices, interest rates and yield curves. Fair values determined by Level 3 inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset.

At initial recognition, Contact Gold classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- (i) Financial assets and liabilities at fair value through profit or loss ("FVTPL"): A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially, and subsequently, at fair value. Transaction costs are expensed in the statements of loss. Gains and losses arising from changes in fair value are presented in the statements of loss within other gains and losses in the period in which they arise. Financial assets and liabilities, and embedded derivatives at FVTPL are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

The Company held no financial assets at FVTPL (Level 1) at December 31, 2018. The Embedded Derivatives, which are classified as Level 3 financial liabilities at FVTPL, are interconnected and relate to similar risk exposures, and are accordingly are valued together as one embedded derivative (Note 8).

- (ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income (loss). Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the statements of loss and comprehensive loss and included in other gains and losses.

As at December 31, 2018, the Company has no financial assets in this category.

- (iii) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables of Contact Gold are comprised of 'Cash and Cash Equivalents' (Level 1), 'Receivables' (Level 2), and 'Bonding Deposits' (Level 2) (Note 5), and are classified as appropriate in current or non-current assets according to their nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

The carrying value of the Company's loans and receivables as at December 31, 2018 approximate their fair value due to their short-term nature.

- (iv) Held to maturity: Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that management of the Company has the positive intention and ability to hold to maturity. They are measured at amortized cost less any allowance for impairment. Amortization of premiums or discounts and losses due to impairment are included in current period loss. As at December 31, 2018, the Company has no financial assets in this category.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. Financial assets and liabilities (continued)

- (v) Financial liabilities at amortized cost: Financial liabilities at amortized cost include account payables and accrued liabilities (Level 2), the "host" element of the Contact Preferred Shares (Level 3)(Note 8), and the Cobb Creek obligation (Level 3)(Note 6(d)). Financial liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value, net of transaction costs. Subsequently, accounts payables are measured at amortized cost using the effective interest method with interest expense recognized on an effective yield basis. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period.

Financial liabilities and the Contact Preferred Shares are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities. No amount of the Contact Preferred Shares is currently due within 12 months; one USD 30,000 payment of the Cobb Creek obligation is due in November 2019.

j. Impairment of financial assets

At each reporting date, management assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, the Company recognizes an impairment loss, as follows:

- (i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- (ii) Available-for-sale financial assets: A significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of loss. This amount represents the cumulative loss in accumulated other comprehensive loss that is reclassified to net loss.

k. Share-based payments

The Company grants share-based awards as an element of compensation. Share-based awards granted by the Company under the "2018 Contact Gold Omnibus Stock and Incentive Plan" (the "Incentive Plan") can include stock options to purchase a Contact Share ("Options"), restricted shares ("restricted Shares"), deferred share units ("DSUs"), or restricted share units ("RSUs"). The Company has not yet awarded any DSUs or RSUs.

Options and Restricted Shares: An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value of Option grants, and awards of Restricted Shares, is measured at the date of grant using the BlackScholes option-pricing model ("Black-Scholes") and the compensation amount, equal to the instrument's fair value, is recognized as an expense as part of either "Stock-Based Compensation" or as part of "Exploration and Evaluation Expenditures" on the consolidated statements of loss and comprehensive loss over the vesting period, with a corresponding increase in contributed surplus. On the exercise of Options or Restricted Shares, consideration received, together with the compensation expense previously recorded to contributed surplus, is credited to share capital.

l. Leasing arrangements

The Company may enter into both leasing arrangements and arrangements that are in substance leasing arrangements. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date, including whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset. Leasing arrangements that transfer substantially all the risks and rewards of ownership of the asset to the Company are classified as finance leases. All other leases are classified as operating leases. Operating lease payments are recognized as an operating cost in the consolidated statements of loss and comprehensive loss on a straight-line basis over the lease term. The Company presently has no finance leases.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Current and deferred taxes

The tax expense or benefit for the reporting period includes current and deferred taxes. Tax expense or benefit is recognized in the consolidated statements of loss and comprehensive loss, except to the extent it relates to items recognized directly in reserves. In such cases, associated income tax is recognized directly in reserves.

The current income tax charge is calculated on the basis of tax laws enacted or substantively enacted at the statement of financial position date in the countries where Company entities operate. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method on temporary differences arising between the tax basis of assets and liabilities and the respective carrying amounts in the Consolidated Financial Statements. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled, without effect from possible future changes in the carrying amount or expected manner of recovery of the particular asset or liability.

Deferred income tax assets are recognized only to the extent it is probable that future taxable profit will be available against which the temporary differences can be utilized. Such deferred tax assets create a tax credit in the period earned and can be applied to current and future year income tax payments.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, and joint arrangements, except for deferred income tax liabilities where the timing of the reversals of the temporary difference is controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

n. Loss per share

Loss per share is calculated by dividing the net loss available to common shareholders by the weighted average number of Contact Shares outstanding during the reporting period. The calculation of diluted earnings per share assumes that outstanding Options and warrants (if any) are exercised and the proceeds are used to repurchase Contact Shares at the average market price of the shares for the period. The effect is to increase the number of shares used to calculate diluted earnings per share relative to basic earnings per share and is only recognized when the effect is dilutive.

o. Comprehensive loss

In addition to net loss, comprehensive loss includes all changes in equity during a period, such as cumulative unrecognized changes in fair value of marketable equity securities classified as available-for-sale or other investments, and the translation of foreign subsidiaries to the Company's Canadian dollar presentation currency.

p. Accounting standards and pronouncements adopted during the year ended January 1, 2018

Amendments to Share-based Payments ("IFRS 2")

In June 2016, the IASB issued amendments to IFRS 2, clarifying how to account for certain types of share-based payment transactions, including the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, accounting for share-based payment transactions with a net settlement feature for withholding tax obligations, and accounting for modifications to the terms and conditions of a share-based payment that changes the classification of the share-based payment transaction from cash-settled to equity-settled.

There was no consequential impact upon adoption of these amendments.

Foreign Currency Transactions and Advance Consideration

The Company has adopted IFRIC Interpretation 22, *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies which date should be used for translation when a foreign currency transaction involves an advance payment or receipt.

The Company has evaluated the impact of applying IFRIC 22 and has concluded that the adoption of the standard had no material impact on the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2018

(Expressed in Canadian dollars, unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Accounting standards and pronouncements adopted during the year ended January 1, 2018 (continued)

IFRS 9, *Financial Instruments* ("IFRS 9")

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("IAS 39") and addresses the classification, measurement and derecognition of financial assets and financial liabilities, and introduces new rules for hedge accounting. In July 2014, the IASB made further changes to the classification and measurement rules and also introduced a single, forward-looking "expected loss" impairment model.

Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. There was no measurement or accounting impact upon adoption of IFRS 9 to any of the Company's financial liabilities.

As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that were recognized at the date of application. The change did not impact the carrying value of any financial assets on transition date.

As there was no measurement or accounting impact upon adoption of IFRS 9 to any of the Company's accounts, the Company is not restating prior periods. Accordingly, there is also no impact on the consolidated statement of cash flows, nor any to basic and diluted EPS.

The following is the Company's new accounting policy for financial instruments under IFRS 9.

(a) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive (loss) income ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading (including all equity derivative instruments) are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification (IAS 39)	New classification (IFRS 9)
Cash and cash equivalents	Amortized cost	Amortized cost
Accounts and other receivables	Amortized cost	Amortized cost
Bonding deposit	Amortized cost	Amortized cost
Payables and accrued liabilities	Amortized cost	Amortized cost
Other liabilities & Cobb Creek obligation	Amortized cost	Amortized cost
Convertible preferred shares – "host" instrument	Amortized cost	Amortized cost
Convertible preferred shares – Embedded Derivatives	FVTPL	FVTPL

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Accounting standards and pronouncements adopted during the year ended January 1, 2018 (continued)

IFRS 9, *Financial Instruments* ("IFRS 9") (continued)

(b) Measurement

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value, and transaction costs are expensed in the consolidated statements of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of loss and comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

The Embedded Derivatives are classified as FVTPL and owing to the requirement that they be fair valued each period, there is no separate recognition of the Company's credit risk.

(c) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve-month expected credit losses.

Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be objectively related to an event occurring after the impairment was recognized.

(d) Derecognition

Financial assets: The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within the accumulated other comprehensive income (loss).

Financial liabilities: The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in the consolidated statements of loss and comprehensive loss.

Other new standards, interpretations and amendments adopted by the Company

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the Consolidated Financial Statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

q. New accounting standards and interpretations effective on, or after, January 1, 2019

A number of new standards, amendments to standards and interpretations effective for annual periods beginning after January 1, 2019, have not been applied in preparing these consolidated financial statements.

IFRIC 23

IFRIC 23, *Uncertainty over Income Tax Treatments* ("IFRIC 23"), provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. Applicable for annual periods beginning on or after January 1, 2019, with earlier application permitted, IFRIC 23 requires: (a) an entity to contemplate whether uncertain tax treatments should be considered separately, or together as a group, based on which approach provides better predictions of the resolution; (b) an entity to determine if it is probable that the tax authorities will accept the uncertain tax treatment; and (c) if it is not probable that the uncertain tax treatment will be accepted, measure the tax uncertainty based on the most likely amount or expected value, depending on whichever method better predicts the resolution of the uncertainty.

The Company intends to adopt IFRIC 23 in its financial statements for the annual period beginning on January 1, 2019 and does not expect there to be a consequential material impact to the consolidated financial statements.

IFRS 16

In January 2016, the IASB issued IFRS 16, *Leases* ("IFRS 16"). IFRS 16 replaces IAS 17, *Leases (and related interpretations)*, the previous accounting standard. The objective of IFRS 16 is to recognize substantially all leases on the statement of financial position for lessees. IFRS 16 requires lessees to recognize a "right-of-use" asset and a lease liability calculated using a prescribed methodology. The effective date of IFRS 16 is for annual periods beginning on or after January 1, 2019. A lessee can choose to apply IFRS 16 using either a full retrospective or a modified retrospective approach. The Company will adopt IFRS 16 for the annual period beginning January 1, 2019. The Company does not currently expect that IFRS 16 will have a significant impact to the consolidated statement of financial position; however, it may result in the recognition of additional right-of-use assets and lease liabilities, and a corresponding increase in depreciation and interest expense on the consolidated statement of loss and comprehensive loss. The Company would also expect that cash flows from operating activities would increase under IFRS 16 as lease payments for substantially all leases would be recorded as financing outflows in the consolidated statement of cash flows as opposed to operating cash flows. The Company is completing its assessment of existing operating leases and will finalize its conclusions and report more detailed information in its first quarter 2019 interim consolidated financial statements.

Annual Improvements

On December 12, 2017, the IASB issued narrow-scope amendments to three standards as part of its annual improvements process. The amendments are effective on or after January 1, 2019. Each of the amendments has its own specific transition requirements.

Amendments were made to the following standards:

- IFRS 3, *Business Combinations* and IFRS 11, *Joint Arrangements* – to clarify how an entity accounts for increasing its interest in a joint operation that meets the definition of a business;
- IAS 12, *Income Taxes* – to clarify that all income tax consequences of dividends are recognized consistently with the transactions that generated the distributable profits - i.e. in profit or loss, other comprehensive income (loss), or equity; and
- IAS 23, *Borrowing Costs* – to clarify that specific borrowings - i.e. funds borrowed specifically to finance the construction of a qualifying asset - should be transferred to the general borrowings pool once the construction of the qualifying asset has been completed. The amendments also clarify that an entity includes funds borrowed specifically to obtain an asset other than a qualifying asset as part of general borrowings.

The Company does not anticipate the adoption of these standard amendments to have an impact on the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and expenses. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Further information on management's judgments, estimates and assumptions and how they impact the various accounting policies are described below and also in the relevant notes to the Consolidated Financial Statements.

Judgments

In the process of applying accounting policies for Contact Gold, management has made the following judgments, which have the most significant effect on the amounts recognised in the Consolidated Financial Statements.

i) Exploration property acquisition and transaction costs

The application of the Company's accounting policy for exploration property acquisition and transaction costs requires judgment to determine the type and amount of such costs to be deferred. Furthermore, judgment is required to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

Relatively significant costs may be incurred when evaluating, pursuing and completing an acquisition, with such costs often included amongst legal and advisory fees incurred as part of more general consultation and advisory services. Pursuant to IFRS, only those direct, incremental costs of any such acquisition can be deferred; accordingly, judgment is required in determining which of the expenditures are eligible for deferral.

The Company determined the price at which the Subscription Receipts were issued (\$1.00 per Subscription Receipt) (Note 4(a)) to be the most appropriate indicator of value in the acquisition of Clover and its portfolio of exploration properties as the \$1.00 per Subscription Receipt price reflected the understanding of market participants of the Transaction, and particularly the planned Asset Acquisition (Note 4(b)).

The \$40.97 million value of consideration reflects the aggregate value of the Cash Payment, and the fair value of the Preferred Shares (Note 8), with the remaining value attributed to the Contact Shares issued to Waterton Nevada (Note 9). Consideration was allocated to the respective exploration property interests acquired principally on the basis of a value-per-hectare of each individual property acquired (based on that of a group of peer companies and their respective exploration property interests), along with management-assessed quantitative and qualitative judgments relating to the prospectivity and marketability of each.

ii) Review of asset carrying values and impairment assessment

Individual assets are evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed, and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is measured at the higher of value in use and fair value less costs to sell. The most significant assets assessed for impairment include the carrying value of the Company's exploration property interests and capitalized exploration property acquisition costs.

iii) Embedded Derivatives

In determining the fair value of the Embedded Derivatives on the date of issue, it was necessary for the Company to make certain judgments relating to the probability and timing of a change of control. The nature of this judgment, and the factors management considered in determining the resultant calculation, is inherently uncertain and subject to change from period to period. Such changes could materially affect the fair value estimate of the embedded derivatives and the change from period to period. The Company changed its estimate during the year ended December 31, 2018; the impact of which is reflected at Note 8.

Estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of expenses during the reporting period. Management of Contact Gold have evaluated estimates and assumptions related to asset valuations, asset impairment, and loss contingencies. Management bases its estimates and assumptions on current facts, historical experience and various other factors that it believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the other sources. The actual results experienced by the Company may differ materially and adversely from the estimates presented in these financial statements. To the extent there are material differences between estimates and the actual results, future results of operations will be affected.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Estimates and assumptions (continued)

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are:

i) Exploration and evaluation expenditures

Exploration property acquisition costs are capitalized. Development costs are capitalized only when it has been established that a mineral deposit can be commercially mined, and a decision has been made to formulate a mining plan. In addition to applying judgment to determine whether future economic benefits are likely to arise from the Company's exploration and evaluation assets or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves, management has to apply a number of estimates and assumptions.

The publication of a resource pursuant to National Instrument 43-101, *Standards of Disclosure for Mineral Projects*, is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified (i.e., measured, indicated or inferred). The estimates and related determination of potential project economics directly impact when the Company capitalizes exploration acquisition costs and development expenditures. Any such estimates and assumptions may change as new information becomes available. If, after development expenditures are capitalised, information becomes available suggesting that the recovery of such expenditure is unlikely, the relevant capitalised amount is written off in the consolidated statements of loss and other comprehensive loss in the period when the new information becomes available.

Resource exploration is a speculative business and involves a high degree of risk. There is no certainty that the expenditures made by Contact Gold in the exploration of its property interests will result in discoveries of commercial quantities of minerals. Exploration for mineral deposits involves risks that even a combination of professional evaluation and management experience may not eliminate. Significant expenditures are required to locate and estimate ore reserves and further the development of a property.

None of the Company's properties have any known body of commercial ore or any established economic deposit; all are currently in the exploration stage. Capital expenditures to bring a property to a commercial production stage are also significant. There is no assurance the Company has, or will have, commercially viable ore bodies. There is no assurance that management of the Company will be able to arrange sufficient financing to bring ore bodies into production.

The Company based its assumptions and estimates on parameters available when the Consolidated Financial Statements were prepared. Existing circumstances and assumptions about future developments, may change due to circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

ii) Fair value of share-based payments

The Company follows IFRS 2, in determining the fair value of share-based payments.

As it relates to equity remuneration, this calculated amount is not based on historical cost, but is derived based on assumptions (such as the expected volatility of the price of the underlying security, expected hold period before exercise, dividend yield and the risk-free rate of return) input into a pricing model. The model requires that management make forecasts as to future events, including estimates of: the average future hold period of issued Options before exercise, expiry or cancellation; future volatility of the Company's share price in the expected hold period; dividend yield; and the appropriate risk-free rate of interest. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 9(d). The resulting value calculated is not necessarily the value that the holder of the equity compensation could receive in an arm's length transaction, given that there is no market for the Options and they are not transferable.

The assumptions used in these calculations are inherently uncertain. Changes in these assumptions could materially affect the related fair value estimates.

iii) Embedded Derivatives

In determining the fair value of the embedded derivatives on the date of issue of USD 5,066,520 (\$6,846,649)(Note 8), it was necessary for the Company to make certain assumptions to derive the effective interest rate used in calculating the Company's credit spread, as well as assumptions relating to the probability and timing of a change of control, share price volatility, and future fluctuations in the rate of foreign exchange between the CAD and the USD.

The Company based its assumptions and estimates on parameters relevant to the June 7, 2017 issue date of the Preferred Shares, and then again as at December 31, 2018. The assumptions used in these calculations are inherently uncertain. Existing circumstances and assumptions about future developments may change due to market change or circumstances arising beyond the control of the Company. Such changes could materially affect the related fair value estimate and are reflected in the assumptions when they occur.

4. ARRANGEMENT AGREEMENT AND ACQUISITION OF CLOVER NEVADA II LLC

On June 7, 2017, the Company closed a series of transactions including a reverse acquisition of a non-operating company and the acquisition of a 100% interest in Clover Nevada II LLC, an entity holding mineral property interests in the State of Nevada.

a) Reverse Take-Over

The Company entered into an arrangement agreement dated December 8, 2016, as amended on January 31, 2017 (the "Arrangement Agreement"), with Carlin Opportunities Inc. ("Carlin"), a private British Columbia company, whereby, subject to the terms and conditions of the Arrangement Agreement, the following transactions occurred on June 7, 2017, pursuant to a court-approved statutory plan of arrangement (the "Arrangement"):

1. a share consolidation (the "Consolidation") on the basis of one (1) new common share in the capital of Winwell (the "New Winwell Shares") for every eight (8) existing common shares of Winwell;
2. the conversion of 23,815,000 previously issued subscription receipts of Carlin (the "Subscription Receipts") into common shares of Carlin (the "Carlin Shares");
3. the acquisition by Winwell of 28,815,000 Carlin Shares (being all the then issued and outstanding Carlin Shares) (the "Acquisition") in exchange for the issuance of New Winwell Shares to shareholders of Carlin (the "Carlin Shareholders") on a one share for one share basis (the "Share Exchange"); and
4. the authorization for Winwell to continue into the State of Nevada and change its name to "Contact Gold Corp."

Following the name change and completion of the continuance of Winwell to the State of Nevada, holders of New Winwell Shares (which included the former holders of Carlin Shares) became holders of common shares of the Company ("Contact Shares").

Pursuant to the Acquisition, 91.2% of the Contact Shares were issued to the Carlin Shareholders, yielding them control of the Company. In accordance with applicable accounting guidance, the substance of the Acquisition was an RTO. As a non-operating company without any business processes, activities or assets, however, the transaction did not constitute a business combination in accordance with IFRS 3, *Business Combinations* ("IFRS 3"). As a result, the Acquisition was accounted for as a share-based payment transaction, with Carlin identified as the accounting acquirer, and the transaction being measured at the fair value of the equity consideration deemed to have been issued to the shareholders of Winwell by Carlin (2,769,486 Contact Shares). The difference between the fair value of the consideration paid and the net of Winwell's assets acquired and liabilities assumed was recognized as a non-cash "listing expense" in the consolidated statement of loss and comprehensive loss during the year ended December 31, 2017.

b) Asset Acquisition

Winwell and Carlin, together with Waterton Nevada Splitter, LLC ("Waterton Nevada"), and Clover Nevada II LLC ("Clover") also entered into a securities exchange agreement dated December 8, 2016, as amended on January 31, 2017 (the "Securities Exchange Agreement"), pursuant to which Contact Gold, immediately following the completion of the Acquisition and continuance to Nevada, acquired 100% of the membership interests of Clover, the entity holding a portfolio of 13 gold properties covering approximately 247 square kilometres located on Nevada's Carlin, Independence and Northern Nevada Rift gold trends (the "Contact Gold Properties")(Note 6), in exchange for:

- i) 18,550,000 Contact Shares (Note 9);
- ii) 11,111,111 non-voting preferred shares of Contact Gold ("Contact Preferred Shares") (Note 8); and
- iii) a cash payment of \$7,000,000 (the "Cash Payment")

(the "Asset Acquisition", and together with the Arrangement, the "Transactions").

The Asset Acquisition did not meet the definition of a business combination as (i) the Contact Gold Properties are at the exploration stage with no defined mineral reserves, and (ii) neither Contact nor Clover contained any business processes. Consequently, the transaction was not characterized as a business combination, and was accounted for as an acquisition of an asset.

The total of consideration paid (\$40,537,020) and transaction costs ("Acquisition Costs") incurred (\$586,073) was allocated to the assets acquired, including the Contact Gold Properties (\$40,973,369) (Note 6) and prepaid Claims Maintenance fees (\$149,724) based on relative fair values at that time.

CONTACT GOLD CORP. (formerly Winwell Ventures Inc.)**Notes to the Consolidated Financial Statements**

for the year ended December 31, 2018

(Expressed in Canadian dollars, unless otherwise noted)

5. RECEIVABLES, PREPAIDS AND DEPOSITS

	As at December 31, 2018	As at December 31, 2017
	\$	\$
Receivables and sales taxes recoverable	27,205	34,734
Prepaid expenses	461,312	552,242
	<u>488,517</u>	<u>586,976</u>

Prepaid expenses include \$406,633 relating to Claims Maintenance fees. Such fees to the BLM cover the 12-month period ranging from September 1 to August 31 of the subsequent year. Fees paid to the respective Nevada counties cover the 12-month period from November 1 to October 31 of the subsequent year. Fees paid pursuant to private property leases and other similar land use arrangements cover the 12-month period of their respective anniversaries.

An amount of \$79,008 was credited to the balance of prepaid Claims Maintenance fees following the disposal of the Santa Renia and Golden Cloud properties (Note 6(e)).

The Company also has non-current bonding deposits of \$204,630 (USD 150,000) made in connection with securing exploration and disturbance bonding in the State of Nevada ("Bonding Deposits") (December 31, 2017: \$188,545).

6. EXPLORATION PROPERTIES AND DEFERRED ACQUISITION COSTS

Pursuant to the Asset Acquisition, on June 7, 2017, the Company completed the acquisition of 100% of the membership interests of Clover, a Nevada limited liability company of which Waterton Nevada was the sole member (Note 4). Clover is the legal entity that holds the mineral property rights and interests that comprise the Contact Gold Properties.

Waterton Nevada holds a right of first offer ("ROFO"), a right of first refusal ("ROFR") and other rights over the Contact Gold Properties (Note 8). A third-party holds a ROFO on certain of the Portfolio properties. With the exception of the Cobb Creek property (-nil%), the Contact Gold Properties each carry an NSR of between 2% and 4%, some of which include buy-down options.

Pursuant to an assessment of the fair values of the respective properties acquired, consideration paid in the Asset Acquisition was attributed to the respective Contact Gold Properties. The Company has subsequently acquired additional mineral property claims contiguous to the original tenure ("Additions"), and either vended ("Disposals") or determined to abandon or impair certain properties. Balances presented as Portfolio properties include the remaining Contact Gold Properties.

	Pony Creek (a)	Dixie Flats (b)	North Star (c)	Cobb Creek (d)	Portfolio properties (e)	Total
January 1, 2017	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Asset Acquisition	27,335,389	3,479,125	620,278	125,619	9,412,958	40,973,369
Additions	141,308	64,729	-	156,040	-	362,077
Foreign Exchange	(1,914,509)	(242,475)	(43,229)	(8,680)	(654,054)	(2,862,947)
December 31, 2017	\$ 25,562,188	\$ 3,301,379	\$ 577,049	\$ 272,979	\$ 8,758,904	\$ 38,472,499
Additions	\$ 144,143	\$ -	\$ -	\$ -	\$ -	\$ 144,143
Disposals & Impairments	-	-	-	-	(2,608,188)	(2,608,188)
Foreign Exchange	2,248,082	288,690	50,460	23,871	660,396	3,271,499
December 31, 2018	\$ 27,954,413	\$ 3,590,069	\$ 627,509	\$ 296,850	\$ 6,811,112	\$ 39,279,953

a) Pony Creek

The Pony Creek project is located within the Pinion Range, in western Elko County, Nevada. The value assigned for the property as part of the Asset Acquisition is \$27,147,164 plus \$188,225 in transaction costs. There is a 3% net smelter returns ("NSR") royalty on those claims that comprised Pony Creek when acquired from Waterton Nevada, 1% of which can be bought back for USD 1,500,000 prior to February 7, 2020.

On February 6, 2018, the Company acquired what was known as the East Bailey property, which is contiguous to Pony Creek, in exchange for 250,000 Contact Shares valued at \$112,500 and a 2% NSR royalty on certain of the claims. An aggregate amount of \$39,181 (including \$7,538 incurred in the year ended December 31, 2017) in directly attributable expenditures incurred relating to the East Bailey acquisition has also been included in "Additions". There is a 3% NSR royalty over other claims that comprise East Bailey, up to 2% of which can be bought back for USD 1,000,000 per 1% prior to September 2030.

During the year ended December 31, 2017, the Company also acquired the contiguous "Pony Spur" property. The Company issued 75,000 Contact Shares (\$52,250) and paid \$66,397 (USD 51,089) in cash, including a reimbursement to the vendors of BLM fees, to the vendor of Pony Spur, and incurred \$15,123 in directly attributable transaction costs.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2018

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6. EXPLORATION PROPERTIES AND DEFERRED ACQUISITION COSTS (continued)*b) Dixie Flats*

The Dixie Flats property sits approximately 11 kilometres to the north of the northern-most point of Pony Creek, in western Elko County, Nevada. The acquisition value assigned to the Dixie Flats property is \$3,412,500 plus \$66,625 in transaction costs. There is a 2% NSR royalty on the Dixie Flats property, 1% of which can be bought back for USD 1,500,000.

During the year ended December 31, 2017, subsequent to closing the Asset Acquisition, the Company acquired additional claims known as the "Poker Flats" property. The Company issued 37,500 Contact Shares (\$28,125) and paid \$34,358 (USD 26,555) in cash, including a reimbursement to the vendors of BLM fees, to the vendor of Poker Flats, and incurred \$2,247 in directly attributable transaction costs.

c) North Star

The North Star property is located approximately 8 kilometres north of the northern-most point of Pony Creek, in western Elko County, Nevada. The acquisition value assigned for the North Star property is \$608,400 plus \$11,878 in transaction costs. There is a 3% NSR royalty on the North Star property.

d) Cobb Creek

Pursuant to the Asset Acquisition, the Company acquired a 49% interest in the Cobb Creek property located in Elko County, Nevada. The acquisition value assigned to the Company's interest in Cobb Creek was \$125,619 including \$10,812 in transaction costs. At acquisition, Cobb Creek was governed pursuant to a partnership agreement dated October 23, 2002 that stipulated that the Company and the 51% counterparty, a private individual (the "Cobb Counterparty"), own the claims, related assets and rights as tenants-in-common. Cost and responsibility to maintain title to the properties was shared pro rata to each of the party's respective interest. There was little-to-no activity at Cobb Creek prior to the date of the Asset Acquisition.

On November 7, 2017, the Company acquired the remaining 51% interest in the Cobb Creek property and related historic data from the Cobb Counterparty in exchange for six annual payments of USD 30,000; the first of which was paid (\$38,379) following closing of the agreement, and the Company recognized \$3,332 in directly attributable transaction costs. The discounted value of the remaining annual payments at the time of the transaction was \$114,329. The total value of the remaining obligation (the "Cobb Creek obligation") was recognized as a financial liability at amortized cost, determined with an interest rate of 18.99%, in line with the effective interest rate determined for the Contact Preferred Shares. The second annual payment of USD 30,000 (\$39,777) was made in November 2018. The remaining Cobb Creek obligation is recorded to the consolidated statements of financial position as a current and non-current amount (\$35,073 and \$75,029, respectively as at December 31, 2018) (\$32,252 and \$85,089, respectively, as at December 31, 2017). Accretion expense of \$22,249 and a foreign exchange loss of \$9,383 have been recorded within other comprehensive loss for the year ended December 31, 2018 (\$2,298 and \$3,720, respectively, for the year ended December 31, 2017).

e) Portfolio properties

By an agreement dated November 5, 2018 (the "Disposal Agreement"), the Company disposed of two properties, Golden Cloud and Santa Renia, to Waterton Nevada in exchange for cash consideration (Note 11). The carrying values and the value of consideration translated to Canadian dollars at the date of the Disposal Agreement, are as follows:

	Carrying value	Consideration
Santa Renia	\$ 1,285,480	\$ 283,775
Golden Cloud	1,237,532	277,176
Total	\$ 2,523,012	\$ 560,951

Pursuant to the Disposal Agreement, Waterton Nevada also reimbursed the Company for \$79,008 (USD 60,975) in Claims Maintenance fees relating in aggregate to the two properties. The Company recognized a \$1,962,061 loss on disposal as a consequence of this transaction. The reimbursed funds have been applied against the carrying value of Claims Maintenance fees (Note 5).

During the year ended December 31, 2018, the Company determined to impair those mineral property claims that comprise the Woodruff property. Accordingly, the carrying value of Woodruff has been written down by \$85,176 to \$nil.

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6. EXPLORATION PROPERTIES AND DEFERRED ACQUISITION COSTS (continued)*Exploration and evaluation expenditures expensed to the consolidated statements of loss and comprehensive loss*

Details of exploration and evaluation expenditures incurred by Contact Gold, including staking costs and the amortization of Claims Maintenance fees paid (Note 5), which have been cumulatively expensed in the consolidated statements of loss and comprehensive loss, are as follows:

	For the period from January 1, 2018 to December 31, 2018	For the period from June 7, 2017 to December 31, 2017
Drilling, assaying & geochemistry	\$ 1,903,760	\$ 2,229,200
Geological contractors/consultants & related crew care costs	987,192	1,022,637
Claims Maintenance fees	757,652	499,668
Wages and salaries, including share-based compensation	635,475	274,137
Permitting and environmental monitoring	163,300	191,174
Property evaluation and data review	-	45,879
Expenditures for the period	\$ 4,447,379	\$ 4,262,695
Cumulative balance	\$ 8,710,074	\$ 4,262,695

There were no balances incurred on the respective properties in the period prior to June 7, 2017 reflecting the acquisition of the Contact Gold Properties upon closing of the Asset Acquisition.

Wages and salaries through December 31, 2018 include share-based compensation of \$177,653 (December 31, 2017: \$80,770) (Note 9(d)). An amount of \$8,514 (December 31, 2017: -\$nil) in amortization expense arising from the use of fixed assets at Pony Creek has been included in the amount reported as geological contractors/consultants & related crew care costs.

Details of exploration and evaluation expenditures incurred and expensed by Contact Gold on the Contact Gold Properties are as follows:

	For the period from January 1, 2018 to December 31, 2018	For the period from June 7, 2017 to December 31, 2017
Pony Creek	\$ 3,854,801	\$ 3,952,719
Dixie Flats	89,509	54,663
North Star	24,147	6,479
Cobb Creek	149,841	20,605
Portfolio properties	329,081	182,350
Property evaluation and data review	- nil	45,879
Expenditures for the period	\$ 4,447,379	\$ 4,262,695
Cumulative balance	\$ 8,710,074	\$ 4,262,695

7. PAYABLES AND ACCRUED LIABILITIES

	As at December 31, 2018	As at December 31, 2017
Payables	\$ 726,738	\$ 403,344
Accrued liabilities	159,193	88,616
	\$ 885,931	\$ 491,960

Payables and accrued liabilities are non-interest bearing and are normally settled on 30-day terms (Note 11).

8. CONVERTIBLE PREFERRED SHARES

On June 7, 2017, as partial consideration for the Asset Acquisition, the Company issued 11,111,111 Contact Preferred Shares with an aggregate face value denominated in USD of 11,100,000 (the "Face Value") (\$15,000,000, converted using the Bank of Canada indicative exchange rate on the date prior to issuance of USD 0.74), maturing five years from the date of issuance (the "Maturity Date"), and carrying a cumulative cash dividend accruing at 7.5% per annum (the "Dividend"), to Waterton Nevada (the Face Value and the sum of the accrued Dividend amount together being the "Redemption Amount"). The accrued Dividend amount is payable on the earlier of conversion and the Maturity Date.

As a contract to buy non-financial assets (the Contact Gold Properties) that is ultimately settled in either cash or Contact Shares, the Contact Preferred Shares are considered to be comprised of (i) a "host" instrument, and (ii) the value of certain rights, privileges, restrictions and conditions attached to the Contact Preferred Shares (the "Pref Share Rights") each, respectively determined to be an embedded derivative (together, the "Embedded Derivatives"). Pursuant to IFRS 9, an embedded derivative is a component of a combined (hybrid) instrument that also includes a non-derivative "host" contract, with the effect that some of the cash flows of the combined instrument vary, according to a specified interest rate, commodity price, foreign exchange rate or other such variable, in a way similar to a standalone derivative.

As a reflection of the potential modification and variability of the cash flows arising from the host instrument and the Embedded Derivatives, each are measured separately from each other. The Embedded Derivatives are classified as liabilities, and each are interconnected and relate to similar risk exposures, namely Contact Gold's interest rate risk (as changes in the Company's credit spread change the economic value of the redemption), and the Company's foreign exchange rate risk exposure (as the foreign exchange rate and the price of the Company's common shares and volatility thereof impact the conversion price and number of Contact Shares issuable on conversion). Accordingly, the Embedded Derivatives are valued together as one compound instrument.

Those Pref Share Rights for which there is separate accounting from the host contract are as follows:

- i. The "*Conversion Option*" (the "COption"): Subject to the limitation that Waterton Nevada (and/or its affiliates) cannot own more than 49% of the issued and outstanding Contact Shares following conversion of the Contact Preferred Shares (the "Conversion Cap"), the Contact Preferred Shares are convertible at the holder's election, into Contact Shares at a conversion price of \$1.35 per Contact Preferred Share (the "Conversion Price"). The number of Contact Shares to be issued on conversion is equal to the Redemption Amount at the conversion date, converted to Canadian dollars, and divided by the Conversion Price. Accordingly, because the Face Value and Dividend amount are denominated in USD and the conversion price is denominated in Canadian dollars, the preferred share conversion ratio is modified by changes in the USD-Canadian dollar exchange rate. This changes the number of Contact Shares that the Company would issue to the preferred shareholder(s) upon conversion.
- ii. The "*Early Redemption Option*" (the "EROption"): Contact Gold has the option to redeem the Contact Preferred Shares at any time before the Maturity Date at the Redemption Amount, in USD. Upon receipt of notification of redemption, and subject to the Conversion Cap, the holder can choose to exercise their conversion right for all or any portion of the Contact Preferred Shares.
- iii. The "*Change of Control Redemption Option*" (the "COCROption"): If a Change of Control (as such term is defined in the Securities Exchange Agreement, and generally including such events as a merger, amalgamation, reorganization or similar transaction that causes a change in control of Contact Gold, or the sale, lease, transfer or other disposition of all or substantially all of Contact Gold's assets) occurs on or prior to the fourth anniversary of the issuance of the Contact Preferred Shares (the "PShare Anniversary"), the holder of the Contact Preferred Shares has the option to require Contact Gold to redeem all or part of the Contact Preferred Shares for the "COCR Option Amount", unless such change in control transaction is with Waterton Nevada.

The COCR Option Amount is calculated as (a) 120% of the Redemption Amount, if there is a Change of Control on or prior to the second PShare Anniversary; or (b) 115% of the Redemption Amount, if there is a Change of Control after the second PShare Anniversary, but on or prior to, the fourth PShare Anniversary.

Industry standard methodology was used to determining the fair value of the host and the Embedded Derivatives, utilizing a set of coupled partial differential Black-Scholes equations solved numerically using finite-difference methods. Upon issuance, the fair value of the Contact Preferred Shares was determined to be \$14,987,020 (approximately equal to the Face Value), including \$6,846,649 in value attributable to the Embedded Derivatives.

Notes to the Consolidated Financial Statements

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8. CONVERTIBLE PREFERRED SHARES (continued)Preferred Shares (host)

The host instrument was initially recorded at fair value of USD 6,033,480 (\$8,140,371) and is revalued each period end using the same approach as described to revalue the Embedded Derivatives, resulting in a difference to the fair value that will vary from period-to-period. In determining the fair value of the host on the date of issue, it was necessary for the Company to make certain assumptions to derive the effective interest rate used in calculating the Company's credit spread. The estimated fair value of the host instrument at December 31, 2018 is USD 8,495,835 (\$11,590,018).

The Carrying value has been recognized as a financial liability at amortized cost, reflective of the fixed rate Dividend, and the mandatory redemption feature, both payable in cash on the Maturity Date. Using the effective interest rate method, at a rate of 18.99%, the Contact Preferred Shares are remeasured at amortized cost each period end, with an accretion expense recorded to the consolidated statements of loss and comprehensive loss.

The impact from changes to the foreign exchange rate resulted in a gain for the period June 7, 2017 to December 31, 2018, reducing the preferred share obligation in that same period. A summary of changes to the value of the Contact Preferred Shares host instrument since issuance on June 7, 2017 is set out below:

Fair value of the Contact Preferred Shares host instrument at issuance (USD 6,033,480)	\$ 8,140,371
Change in value of the Preferred Shares host instrument	
Accretion	899,655
Foreign exchange	(620,321)
Value of the Contact Preferred Shares host instrument at December 31, 2017	\$ 8,419,705
Change in value of the Preferred Shares host instrument	
Accretion	1,842,900
Foreign exchange	741,314
Value of the Contact Preferred Shares host instrument at December 31, 2018	11,003,919

Pref Share Embedded Derivatives

The total estimated fair value of the Embedded Derivatives at issuance was USD 5,066,520 (\$6,846,649). This amount has been recorded as part of the convertible redeemable Preferred Shares liability account on the consolidated statements of financial position. In addition to certain observable inputs, the valuation technique used significant unobservable inputs such that the fair value measurement was classified as Level 3. Significant inputs into the determination of fair value included (i) the Company's common share price, (ii) an indexed average historical volatility of 48.1% (48.5% at inception), (iii) rates from the USDCAD foreign exchange forward curve, and (iv) the USD risk-free rate curve and the CAD risk-free rate curve, at the date of inception, and again at period end. The Company also determined probability weightings for the potential exercise and timing thereof of the (i) COCROption, and (ii) EROption. At December 31, 2018 the Company reassessed and slightly increased its assumption as to the possibility of a Change of Control, decreasing the total estimated fair value of the Embedded Derivatives by an incremental \$230,670 over that which would have otherwise been determined.

There is an inverse correlation of the fair value of the Embedded Derivatives and the USD-denominated value of the Contact Shares on the TSXV. The impact of changes in estimates of the probability of the exercise of the COCROption and EROption are generally correlated; however, the calculation of such is also impacted by changes to the different risk-free rate curves, further impacting the fair value of the Embedded Derivative. There is significant complexity to the interplay and impact of these various inputs and the quantum resultant from these relationships, which is further influenced by changes to management's assumptions as to the potential exercise and timing thereof of the COCROption and the EROption. Accordingly, there may be significant volatility to the fair value of the Embedded Derivatives from period to period.

During the period June 7, 2017 to December 31, 2017, and again through December 31, 2018, the fair value of the Embedded Derivatives decreased as a result of changes to these inputs and assumptions. The amounts of these changes are included in the gain on change in fair value of Embedded Derivatives account on the respective consolidated statements of loss and comprehensive loss.

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8. CONVERTIBLE PREFERRED SHARES (continued)Pref Share Embedded Derivatives (continued)

A summary of changes to the value of the Embedded Derivatives since issuance on June 7, 2017 is set out below:

Fair value of Embedded Derivatives at issuance	\$ 6,846,649
Change in fair value of Embedded Derivatives	(5,799,607)
Fair value of Embedded Derivatives at December 31, 2017	\$ 1,047,042
Change in fair value of Embedded Derivatives	(461,261)
Fair value of Embedded Derivatives at December 31, 2018	\$ 585,781

Other Pref Share Rights

In addition to the Embedded Derivatives, the Pref Share Rights include the following rights, privileges, restrictions and conditions ("Other Terms") for which there is no accounting impact:

- So long as Waterton Nevada and/or its affiliates beneficially own or control 33⅓% or more of the Contact Preferred Shares issued on closing of the Asset Acquisition, and subject to the provisions of the Contact Preferred Shares:
 - i. *Right of First Offer.* Contact Gold will be obligated to inform Waterton Nevada of its intention to sell, lease, exchange, transfer or otherwise dispose of any of its interests in the Contact Gold Properties that is not a sale of all or substantially all of Contact Gold's assets and provide Waterton Nevada with a summary of the essential terms and conditions by which it is prepared to sell any specified interest in the Contact Gold Properties. Upon receipt of such divesting notice, Waterton Nevada will have the right to elect to accept the offer to sell by Contact Gold on the terms contained on the divesting notice. If Waterton Nevada does not elect to accept the offer for such specified terms, Contact Gold shall be permitted to sell its specified interest in the Contact Gold Properties to a third party for a period of 180 days from the date of the original divesting notice on terms and conditions no less favourable to Contact Gold than those contained in the divesting notice.
 - ii. *Right of First Refusal.* If Contact Gold shall have obtained an offer from one or more third-party buyers in respect of the sale, lease, exchange, transfer or other disposition of any of the Contact Gold Properties, in whole or in part, in any single transaction or series of related transactions, which offer Contact Gold proposes to accept, Contact Gold shall promptly provide written notice of such fact to Waterton Nevada and offer to enter into such a transaction with Waterton Nevada.
 - iii. *Sale of Substantially all of Contact Gold's Assets.* Contact Gold shall not sell, lease, exchange, transfer or otherwise dispose of all or substantially all of its assets without Waterton Nevada's prior written consent, which will not be unreasonably withheld or delayed.
- *Liquidation.* In the event of a liquidation, dissolution or winding-up of Contact Gold or other distribution of assets of Contact Gold among its shareholders for the purpose of winding up its affairs or any steps taken by Contact Gold in furtherance of any of the foregoing, the holders of Contact Preferred Shares shall be entitled to receive from the assets of the Contact Gold in priority to any distribution to the holders of Contact Shares or any other class of stock of Contact Gold, the Liquidation Value (as such term is defined in the articles of incorporation of Contact Gold) per Contact Preferred Share held by them respectively, but such holders of Contact Preferred Shares shall not be entitled to participate any further in the property of Contact Gold.

Costs incurred relating to the issuance of the Contact Preferred Shares are included in the total of Transaction Costs (Note 6) as the Contact Preferred Shares were issued as partial consideration in exchange for the acquisition of Clover.

Based on the rate of foreign exchange at year-end, the number of Contact Shares to be issued would be 11,216,756 if all of the outstanding Contact Preferred Shares had been converted into Contact Shares (December 31, 2017: \$10,314,778). Diluted loss per share does not include the effect of such issuance (December 31, 2017: -nil), as the Contact Preferred Shares are currently anti-dilutive.

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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized

The Company's authorized share capital consists of:

- (i) up to 500,000,000 Contact Shares with a par value of USD0.001, voting and participating;
- (ii) up to 15,000,000 Class A non-voting Contact Preferred Shares (Note 8).

b) Issued and outstanding common shares

Changes in issued common share capital during the year ended December 31, 2018:

- (i) On February 6, 2018, the Company issued 250,000 Contact Shares with a value of \$112,500 as partial consideration for the acquisition of the East Bailey property, now part of the Pony Creek property (Note 6(a)).
- (ii) Subsequent to year-end, the Company issued 9,827,589 Contact Shares and Rights (Note 16(a))

Changes in issued common share capital and equity reserves during the year ended December 31, 2017:

- (iii) On June 7, 2017, the Company consolidated the existing 22,155,978 common shares on an 8:1 basis such that shareholders of the Company held 2,769,486 New Winwell Shares, which automatically became Contact Shares with a value of \$2,769,486, on completion of the continuance (Note 4(a)).
- (iv) Pursuant to the Acquisition, on June 7, 2017, 28,815,000 Carlin Shares with a value of \$21,157,750, being all of those then issued and outstanding, were exchanged for New Winwell Shares, which automatically became Contact Shares pursuant to the Share Exchange, on completion of the continuance (Note 4(a)).
- (v) Pursuant to the Asset Acquisition, on June 7, 2017, the Company issued 18,550,000 Contact Shares, with a value of \$18,550,000, to Waterton Nevada (Note 4(b)).

In connection with the Subscription Receipts financing, which was completed in two tranches, on March 17, 2017, and March 22, 2017, consideration was paid to agents and financial advisors in the amount of \$952,500.

The aggregate of fees and disbursements reimbursed to the agents and advisors (including the fees and disbursements of the agents' and advisors' legal counsel), and those fees and expenses incurred directly by the Company relating to the share issuance and Share Exchange, was an additional \$608,552.

- (vi) On June 13, 2017, the Company issued 100,000 Restricted Shares to an officer of the Company, of which one third (valued at \$34,722) have subsequently vested.
- (vii) On September 11, 2017, the Company issued 112,500 Contact Shares with a value of \$84,375 as partial consideration for the acquisition of what were known as the Pony Spur and Poker Flats properties, respectively now part of the Pony Creek and Dixie Flats properties.

c) Escrowed Contact Shares and other restrictions and obligations

As at December 31, 2018, 10,534,611 (December 31, 2017: 17,557,685) of the Contact Shares were held in escrow and restricted from trading, pursuant to the rules of the TSXV. These trading restrictions expire as follows:

June 14, 2019	3,511,537
December 14, 2019	3,511,537
June 14, 2020	<u>3,511,537</u>
	10,534,611

As a condition to the completion of the Transactions, and in addition to the escrow provisions imposed by the TSXV, Waterton Nevada's shareholdings in Contact Gold (18,500,000 Contact Shares) are subject to a lock-up whereby it shall not sell or otherwise dispose of its security holdings in Contact Gold for a period of 24 months from the closing of the Transactions, other than in limited circumstances.

The Contact Shares held by certain directors and officers of the Company issued in connection with, or held at, the closing of the Transactions (in aggregate, 5,785,248 Contact Shares) are also subject to a lock-up period ending 24 months following the closing of the Transactions.

In addition to having a right to receive regular updates of technical information about Contact Gold, one shareholder, holding approximately 15% of the issued and outstanding Contact Shares at December 31, 2018, was provided the a right to maintain its pro rata ownership percentage of Contact Gold during future financings; this same shareholder also held a "top up" right to increase its equity ownership percentage to a maximum of 19.9% of the issued and outstanding Contact Shares until the earlier of the date on which it elects not to exercise its participation right in any future financing or it disposes of any Contact Shares (Note 16(a)).

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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)*d) Stock options*

As a component of the Incentive Plan, the Company has established a stock option plan in compliance with the TSXV's policy for granting Options. Under the Incentive Plan, the maximum number of Contact Shares reserved for issuance may not exceed 10,026,899 Contact Shares, together with any other security-based compensation arrangements, and further subject to certain maximums to individual optionees on a yearly basis. The exercise price of each Option shall not be less than the market price of the Contact Shares at the date of grant. Options have expiry dates of no later than five years after the grant date. Vesting of Options is determined by the Board at the time of grant. As at December 31, 2018, 1,166,583 Options have vested (December 31, 2017: nil).

A summary of the changes in Options is presented below:

	Number of Options	Weighted Average Exercise Price
Outstanding as at December 31, 2016	-	-
Granted	3,583,000	\$ 0.97
Expired	-	-
Forfeit or cancelled	-	-
Exercised	-	-
Outstanding as at December 31, 2017	3,583,000	\$ 0.97
Granted	4,615,000	\$ 0.39
Expired	-	-
Forfeit or cancelled	-	-
Exercised	-	-
Outstanding as at December 31, 2018	8,198,000	\$ 0.64

On June 13, 2017, subsequent to closing of the Transactions, and prior to the listing of the Contact Shares on the TSXV, the Company granted 3,233,000 Options to its directors and officers, exercisable at \$1.00 with a five-year expiry. 2,900,000 of these Options vest in thirds over a period of three years, and the remaining 333,000 Options vest in quarters over a period of four years.

On September 11, 2017, the Company granted 150,000 Options to certain finance and geological personnel, exercisable at \$0.75 with a five-year expiry; vesting in thirds over a period of three years.

On November 24, 2017, the Company granted 200,000 Options to employees, exercisable at \$0.58 with a five-year expiry; vesting in thirds over a period of three years.

On March 27, 2018, the Company granted 3,985,000 Options to its directors and officers and employees, exercisable at \$0.39 with a five-year expiry; vesting in thirds over a period of three years.

On April 17, 2018, the Company granted 480,000 Options to its consultants and a new employee, exercisable at \$0.415 with a five-year expiry; vesting in thirds over a period of three years.

On May 28, 2018, the Company granted 150,000 Options to a new employee, exercisable at \$0.295 with a five-year expiry; vesting in thirds over a period of three years.

Subsequent to year end, 1,670,000 Options were awarded of directors, officers and employees of the Company (Note 16(b)).

Share-based compensation expense during the year ended December 31, 2018 is \$1,202,235 (period from June 7, 2017 to December 31, 2017: \$569,514). An additional amount of \$177,653 was charged to exploration and evaluation expenditures on the consolidated statement of comprehensive loss for the year ended December 31, 2018 (period from June 7, 2017 to December 31, 2017: \$80,770) (Note 6).

For the purposes of estimating the fair value of Options using Black-Scholes, certain assumptions are made such as expected dividend yield, volatility of the market price of the Company's common shares, risk-free interest rates and expected average life of the Options. Contact Gold bases its expectation of volatility on the volatility of similar publicly-listed companies, as the expected life of the Company's Options exceeds the Company's trading history.

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9. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)*d) Stock options*

The weighted average fair value of Options granted during the year ended December 31, 2018, determined using Black-Scholes was \$0.64 per Option (December 31, 2017: C\$0.97) The remaining average contractual life of Options outstanding is 3.92 years. For the purposes of estimating the fair value of Options awarded in 2018, using the Black-Scholes model, certain assumptions are made such as the expected dividend yield (0%), risk-free interest rates (range between 1.15% and 2.14%), and expected average life of the options (5 years). As the expected life of Contact Gold's Options exceeded the length of time over which the Contact Shares have traded, average rates of volatility of 65%-71% were used, reflecting those of a group of similar publicly-listed companies in determining an expectation of volatility of the market price of the Company's shares. A 0% forfeiture rate was applied to the Option expense.

e) Restricted Shares

Restricted Shares granted under the Incentive Plan to an officer of the Company vest in thirds at the end of each year from the date of grant. The Restricted Shares were deemed to have a fair value of \$1.00 per Restricted Share on the date of grant, with reference to the price at which the Company issued the Contact Shares pursuant to the Subscription Receipt financing.

Transactions relating to Restricted Shares are summarised below:

	Number of Restricted Shares
Balance at January 1, 2017	-
Granted	100,000
Outstanding at December 31, 2017	100,000
<u>Balance at January 1, 2018</u>	100,000
Granted	-
Vested	33,333
Outstanding at December 31, 2018	66,667

The Restricted Shares are issued from treasury with vesting conditions, as determined by the Board, on grant date. The fair value of the Restricted Shares is charged to contributed surplus, and is expensed to the consolidated statements of loss and comprehensive loss over the vesting period. During the year ended December 31, 2018, an amount of \$34,722 was recognized to the value of share capital for those vested Restricted Shares.

f) Short form base prospectus (the "Shelf Prospectus")

To maintain financial flexibility, on October 24, 2018, the Company filed the Shelf Prospectus with the securities regulatory authorities in each of the provinces and territories of Canada, except Québec (the "Commissions").

The Shelf Prospectus will, subject to securities regulatory requirements, enable Contact Gold to make offerings of up to \$30 million of any combination of common shares, debt securities, subscription receipts, units and warrants (all of the foregoing, collectively, the "Securities") during the 25-month period that the Shelf Prospectus, including any amendments thereto, remains valid. The specific terms of any future offering of Securities will be established in a prospectus supplement to the Shelf Prospectus, which supplement will be filed with the applicable Canadian securities regulatory authorities.

As at December 31, 2018, the Company has recorded \$313,220 in deferred share issue costs incurred in relation to the preparation and filing of documents to supplement the Shelf Prospectus and other related financing-readiness materials.

g) Income (loss) per share

The calculation of basic and diluted loss per Contact Share for the year ended December 31, 2018 was based on the loss attributable to common shareholders of \$11,855,092 and the weighted average number of Contact Shares outstanding of 50,572,328, including the Restricted Shares.

Diluted loss per share did not include the effect of 8,198,000 Options (December 31, 2017: 3,583,000) as they are anti-dilutive.

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(Expressed in Canadian dollars, unless otherwise noted)

10. INCOME TAX

- a) Provision for income taxes: The recovery of income taxes differs from the amount that would have resulted from applying federal corporate tax rate in the United States for 2018 of 21% (2017: 35%). The decrease in the statutory U.S. federal income tax rate reflects the enactment of U.S. tax reform. Prior to closing of the Arrangement, the Company was a Canadian entity, and therefore, the applicable federal and provincial statutory tax rates prior to June 7, 2017 were 26%.

	Year ended December 31, 2018	Year ended December 31, 2017
	\$	\$
Loss before taxes	(11,855,092)	(3,238,190)
Combined federal and provincial income tax rate	<u>21.00%</u>	<u>35.00%</u>
Expected income tax recovery	(2,489,570)	(1,133,366)
Permanent differences	770,056	(1,013,794)
Difference in tax rates between Canada and US	(198)	42,433
Expired tax attributes	-	62,095
Other	67,573	28,781
Change in deferred tax assets not recognized	1,652,139	2,013,851
Income tax expense (recovery)	-	-

Effective January 1, 2018, the Canadian statutory tax rate increased by 1% due to the British Columbia legislative change.

- b) The Company recognizes tax benefits on losses or other deductible amounts generated in countries where the probable criteria for the recognition of deferred tax assets has been met.

Deferred tax assets (liabilities) have been recognized with respect to the following:

	at December 31, 2018	at December 31, 2017
	\$	\$
Contact Gold Properties	-	-
Tax losses	-	-
Other	-	-
Net deferred tax assets (liabilities)	-	-

Deferred tax assets (liabilities) have not been recognized with respect to the following:

	at December 31, 2018	at December 31, 2017
	\$	\$
Contact Gold Properties	1,604,821	739,447
Tax losses	1,591,339	580,929
Other	23,200	22,767
Temporary differences on account of income	3,219,360	1,343,143

Notes to the Consolidated Financial Statements

for the year ended December 31, 2018

(Expressed in Canadian dollars, unless otherwise noted)

10. INCOME TAX (continued)

- c) The Company has Canadian non-capital tax loss carry-forwards of approximately \$274,493 (December 31, 2017: \$744,836), and US non-capital tax loss carry-forwards of approximately \$7,224,885 (USD 5,296,060) as at December 31, 2018 (December 31, 2017: \$ 1,808,684 (USD 1,441,702).)

The Company's unrecognized Canadian non-capital losses have the following expiry dates

	\$
2037	274,493
	274,493

The Company's unrecognized US non-capital losses have the following expiry dates:

	\$
2037	1,808,684 (USD 1,441,702)
	1,808,684 (USD 1,441,702)

There are no income taxes owed by Contact Gold as at December 31, 2018.

11. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

Key management includes members of the Board, the President and Chief Executive Officer, the VP Strategy & Chief Financial Officer, the Company's Senior Vice-President, and the VP Exploration. The aggregate total compensation paid or payable to key management for employee services for the respective periods is shown below:

	For the year ended December 31, 2018	For the period from June 7, 2017 to December 31, 2017
Salaries and other short-term employee benefits	\$ 1,101,728	\$ 520,457
Share-based payments and Restricted Shares	1,211,579	634,506
Total	\$ 2,313,307	\$ 1,154,963

An additional amount of \$60,000 (2017: \$34,000) was invoiced by Cairn Merchant Partners LP ("Cairn"), an entity in which Andrew Farncomb, a director and officer of the Company, is a principal for employee service; \$45,000 is payable at December 31, 2018 (2017: \$13,003). Mr. Farncomb's base salary is paid in part directly, and in part to Cairn, in consideration of general management and administrative services rendered through Cairn.

An amount of \$195,000 earned by the directors of the Company relating to directors' fees for 2018 (2017: \$ -nil) is included in the table above, of which \$48,750 is payable at December 31, 2018 (2017: \$ -nil). There remained a balance of \$148,750 in salaries and other short-term employee benefits payable at December 31, 2018 (2017: \$ -nil).

Options were granted, and director fees were paid and payable to Mr. Charlie Davies, one of Waterton Nevada's Board nominees. Mr. Davies is an employee of an affiliate of Waterton Nevada.

Other

Contact Gold's related parties also include (i) its subsidiaries; and (ii) Waterton Nevada as a reflection of its 37% ownership interest in the Company, its preferred shareholding and the right Waterton Nevada holds to put forward two nominees to the Board.

Pursuant to the Disposal Agreement, the Company sold the Golden Cloud and Santa Renia mineral properties to Waterton Nevada in exchange for cash consideration in the amount of \$560,951 (Note 6(e)). Total cash consideration received of \$639,959, included an amount of \$79,008 as reimbursement of Claims Maintenance fees. The Company recognized a \$1,962,061 loss on disposal as a consequence of this transaction.

Waterton Nevada also purchased 3,603,020 Contact Shares in the Private Placement (Note 16(a)) subsequent to year end.

Notes to the Consolidated Financial Statements

for the year ended December 31, 2018

(Expressed in Canadian dollars, unless otherwise noted)

12. SEGMENT INFORMATION

Reportable segments are those operations whose operating results are reviewed by the chief operating decision maker, being the individual at Contact Gold making decisions about resources to be allocated to a particular segment, and assessing performance provided those operations pass certain quantitative thresholds.

The Company undertakes administrative activities in Canada, and is engaged in the acquisition, exploration, and evaluation of certain mineral property interests in the State of Nevada, USA. Accordingly, the Company's operations are in one commercial and two geographic segments. The Contact Gold Properties (Note 6) and the Bonding Deposit (Note 5) are held by the Company in Nevada. The remaining assets, including cash and cash equivalents, prepaids and receivables, reside in both of the Company's two geographic locations.

The Company is not exposed to significant operating risks as a consequence of the concentration of its assets in the United States.

Net loss (income) is distributed by geographic segment per the table below:

	December 31, 2018	December 31, 2017
	\$	\$
Canada	5,246,902	(1,055,491)
United States	6,608,190	4,293,681
	<u>11,855,092</u>	<u>3,238,190</u>

The Company is in the exploration stage and accordingly, has no reportable segment revenues.

13. SUPPLEMENTAL CASH FLOW INFORMATION

	December 31, 2018	December 31, 2017
Non-cash financing and investing transactions		
Issuances of Contact Preferred Shares	\$ -	\$ 14,987,020
Issuances of Common Shares pursuant to:		
Asset Acquisition	-	18,550,000
Acquisition of Pony Spur and Poker Flats	-	84,375
Acquisition of East Bailey	112,500	-
	<u>\$ 112,500</u>	<u>\$ 33,621,395</u>

14. CAPITAL MANAGEMENT

The Company relies upon management to manage capital in order to safeguard the Company's ability to continue as a going concern, to pursue the exploration and development of unproven mineral properties, and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company's current capital consists of equity funding through private issuances of common shares, preferred shares and a deficit incurred through operations.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To facilitate the management of its capital requirements, the Company undertakes an annual budget process that will be updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

As the Company is currently in the exploration phase, with exception of the Contact Preferred Shares and Cobb Creek obligation, none of its financial instruments are exposed to commodity price risk; however, the Company's ability to obtain long-term financing and its economic viability may be affected by commodity price volatility.

The Company currently does not produce any revenue and has relied on existing balances of cash and cash equivalents, and capital financing to fund its operations. The Company is currently not subject to externally imposed capital requirements.

There were no changes in the Company's approach to capital management during the year ended December 31, 2018.

15. FINANCIAL RISK MANAGEMENT

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Company's financial instruments consist of cash and cash equivalents, receivables, accounts payable and accrued liabilities, the Cobb Creek obligation, and the Contact Preferred Shares and related Embedded Derivatives. It is management's opinion that with the exception of the Contact Preferred Shares and the Embedded Derivatives: (i) the Company is not exposed to significant interest, currency or credit risks arising from its financial instruments, and (ii) the fair values of these financial instruments approximate their carrying values unless otherwise noted in these Consolidated Financial Statements.

Contact Preferred Shares and the Embedded Derivatives are both considered to be Level 3 type financial liabilities, with each determined by observable data points, in particular the Company's share price, the rate of CAD/USD foreign and the Company's credit spread, with reference to current interest rates and yield curves (Note 8).

The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Contact Gold's credit risk is primarily attributable to its liquid financial assets. The Company limits exposure to credit risk and liquid financial assets through maintaining its cash with high credit quality banking institutions in Canada and the USA. The Company mitigates credit risk on these financial instruments by adhering to its investment policy that outlines credit risk parameters and concentration limits. The balance of receivables due and the bonding deposit, are with the Canadian and United States governments, respectively. As at December 31, 2018, the balance of cash and cash equivalents held on deposit was \$545,164 (December 31, 2017: \$6,176,258).

The Company has not experienced any losses in such amounts and believes it is not exposed to any significant risks on its cash and cash equivalents in bank accounts.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages its capital in order to meet short-term business requirements, after taking into account cash flows from operations, expected capital expenditures and the Company's holdings of cash. The Company's most significant area of potential liquidity risk relates to the obligation to satisfy the Contact Preferred Shares upon redemption. There will be significant equity dilution upon satisfaction of the Redemption Amount; there is no certainty that the Company would be able to raise sufficient capital to meet this obligation. In general, the Company will have to issue additional Contact Shares to ensure there is sufficient capital to meet long-term objectives. The Company's financial liabilities of payables and accrued liabilities are payable within a 90-day period and are to be funded from cash on hand.

Interest rate risk

Contact Gold is subject to interest rate risk with respect to its investments in cash. The Company's current policy is to invest cash at floating rates of interest, and cash reserves are to be maintained in cash and cash equivalents in order to maintain liquidity, while achieving a satisfactory return for shareholders. Fluctuations in interest rates when cash and cash equivalents mature impact interest income earned.

Market risk - foreign exchange

The significant market risk to which the Company is exposed is foreign exchange risk. The results of the Company's operations are exposed to currency fluctuations. To date, the Company has raised funds entirely in Canadian dollars. The majority of the Company's exploration property expenditures will be incurred in United States dollars. The fluctuation of the Canadian dollar in relation to the USD will consequently have an impact upon the financial results of the Company.

A 1% increase or decrease in the exchange rate of the US dollar against the Canadian dollar would result in a \$4,203 increase or decrease, respectively, in the Company's cash balance. The Company has not entered into any derivative contracts to manage foreign exchange risk at this time.

Fair Value Estimation

With the exception of the Contact Preferred Shares (Note 8), and other non-current liabilities (Note 6(d)), the carrying value of the Company's financial assets and liabilities approximates their estimated fair value due to their short-term nature.

16. SUBSEQUENT EVENTS

a) Private Placement

On March 14, 2019, the Company closed a private placement of 9,827,589 Contact Shares, at a price of \$0.29 per Contact Share (the "Placement Price") for proceeds of \$2,850,000. Each Contact Share was accompanied by one right (a "Right"). Subject to the rules and limitations of the TSXV, each Right shall automatically convert, without the payment of additional consideration, upon the earlier of:

- (a) the closing of a public offering registered or qualified under the Securities Act of 1933, as amended (the "Securities Act") (a "Qualified Offering");
- (b) a Change of Control of Contact Gold; or
- (c) one year following the closing date of the private placement ("Time Deadline"),

for Contact Shares as follows:

- (i) if the offering price of common stock sold in a Qualified Offering is greater than the Placement Price, for that number of shares of Contact Shares to provide a Placement Price with an effective 5% discount;
- (ii) if the offering price of Contact Shares sold in a Qualified Offering is equal to or less than the Placement Price, for that number of Contact Shares to provide a Placement Price with an effective 10% discount to the Qualified Offering price;
- (iii) in the event of a Change of Control, for that number of Contact Shares to provide a Placement Price with an effective 5% discount; or
- (iv) in the event of conversion at the Time Deadline, for that number of Contact Shares to provide a Placement Price that is equal to the maximum allowable discount prescribed pursuant to the rules of the TSXV.

The maximum possible number of issuable Contact Shares as a consequence of the conversion of the Rights is 2,047,414. All securities offered are restricted securities under Rule 144 under the Securities Act.

Waterton Nevada participated in the Private Placement such that it maintained its 36.66% pro rata share of the Company's common shares (Note 11). The top up right described at Note 9(c) lapsed as a consequence of the Private Placement.

b) Option cancellation

Cancellation

On March 15, 2019, 80,000 Options originally awarded on April 17, 2018 to a consultant to the Company were cancelled.

Award

On April 3, 2019 the Company awarded 1,670,000 Options to directors, officers and employees, exercisable at \$0.275 with a five-year expiry; vesting in thirds over a period of three years.