

NOTICE TO READER

Pursuant to a decision document dated December 24, 2019 (2019 BCSECCOM 451) issued by the British Columbia Securities Commission (as principal regulator) and the Ontario Securities Commission under National Policy 11, 203 – *Process for Exemptive Relief Applications in Multiple Jurisdictions* (the "Order"), Contact Gold Corp. (the "Company") has been granted an exemption from the Canadian securities commissions in each jurisdiction where the Company is a reporting issuer (the "Commissions") from having to prepare its financial statements in accordance with International Financial Reporting Standards, and have such financial statements audited pursuant to Canadian auditing standards. Pursuant to the Order, the Company is now permitted to file its financial statements in accordance with United States Generally Accepted Auditing Principles ("US GAAP") and have such financial statements audited pursuant to the rules and standards of the United States Public Company Accounting Oversight Board. The exemptive relief provided under the Order is conditional on the Company meeting the requirements set forth in the Order, the most significant of which include compliance with its ongoing reporting obligations as a Regulation A filer with the United States Securities Exchange Commission, and completing and filing a qualified "Form 1-A" every 36-months.

Further to the Order, the Company changed the body of accounting standards used to prepare its comparative financial statements from International Financial Reporting Standards ("IFRS"), to US GAAP; the first period of which is for, and as at, the year ended December 31, 2019.

Prior period financial information filed under the Company's issuer profile on SEDAR was prepared in accordance with IFRS. US GAAP differs in some respects from IFRS and thus may not be comparable to financial statements of Canadian companies that are prepared in accordance with IFRS. Although the Company has sought to align its accounting treatment and disclosures to align with those required under IFRS and US GAAP so as to minimize the differences, these consolidated financial statements do not include any explanation of the principal differences or any reconciliation between IFRS and US GAAP.



Contact Gold Corp.

An exploration stage company

CONSOLIDATED FINANCIAL STATEMENTS

For the years ended December 31, 2019, 2018, 2017

(Expressed in Canadian dollars)

Report of independent registered public accounting firm

To the Shareholders and the Board of Directors of
Contact Gold Corp.

Opinion on the consolidated financial statements

We have audited the accompanying consolidated balance sheets of **Contact Gold Corp.** [the “Company”] as of December 31, 2019 and 2018, the related consolidated statements of loss and comprehensive loss, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes [collectively referred to as the “consolidated financial statements”]. In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

The Company’s ability to continue as a going concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in note 2 to the consolidated financial statements, the Company has suffered recurring losses from operations, has a working capital deficiency, and has stated that substantial doubt exists about the Company’s ability to continue as a going concern. Management’s evaluation of the events and conditions and management’s plans regarding these matters are also described in note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

Basis for opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) [“PCAOB”] and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP
Chartered Professional Accountants

We have served as the Company’s auditor since 2017.

Vancouver, Canada
March 30, 2020



Contact Gold Corp.
Consolidated Balance Sheets

(Expressed in Canadian dollars)

As at

	Note	December 31, 2019 \$	December 31, 2018 \$
Assets			
<i>Current assets</i>			
Cash and cash equivalents		844,169	545,164
Prepays and deposits	4	301,879	461,312
Receivables		92,695	27,205
Deferred share issue costs	8(b)	-	313,220
Total current assets		<u>1,238,743</u>	<u>1,346,901</u>
<i>Non-current assets</i>			
Marketable securities	5(d)	56,250	-
Bonding deposit	4	-	204,630
Fixed assets		16,212	29,800
Exploration properties and deferred acquisition costs	5	38,364,013	41,347,318
Total non-current assets		<u>38,436,475</u>	<u>41,581,748</u>
Total assets		<u>39,675,218</u>	<u>42,928,649</u>
Liabilities and shareholders' equity			
<i>Current liabilities</i>			
Payables and accrued liabilities	6	468,058	885,931
Other current liabilities	5(d)	33,376	35,073
Total current liabilities		<u>501,434</u>	<u>921,004</u>
<i>Non-current liabilities</i>			
Redeemable preferred stock	7	13,246,524	11,589,700
Other non-current liabilities	5(d)	51,622	75,029
Deferred tax liability	9	1,918,202	2,067,366
Total non-current liabilities		<u>15,216,348</u>	<u>13,732,095</u>
Total liabilities		<u>15,717,782</u>	<u>14,653,099</u>
<i>Shareholders' equity</i>			
Share capital	8	44,562,187	38,625,765
Contributed surplus	8	3,012,870	1,995,449
Accumulated other comprehensive income (loss)		(1,398,180)	499,651
Accumulated deficit		(22,219,441)	(12,845,315)
Total shareholders' equity		<u>23,957,436</u>	<u>28,275,550</u>
Total liabilities and shareholders' equity		<u>39,675,218</u>	<u>42,928,649</u>
Nature of operations and going concern	1, 2(a)		
Subsequent events	15		

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)

	Note	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Operating expenses:				
Exploration and evaluation expenditures	5	3,038,682	4,447,379	4,262,695
Loss on disposal of exploration properties	5(e)	-	1,962,061	-
Write down of exploration properties	5(e)	1,381,434	85,176	-
Accretion of redeemable preferred stock obligation	7	2,218,595	1,842,900	899,655
Wages and salaries		1,555,414	1,070,348	428,411
Stock-based compensation	8(d)	817,792	1,202,235	569,514
Professional, legal & advisory fees		454,051	421,946	568,429
Investor relations, promotion and advertising		249,749	502,384	321,428
Administrative, office, and general		241,246	240,914	178,292
Loss (gain) on embedded derivatives	7	48,635	(461,261)	(5,799,607)
Loss on change in fair value of private placement rights	8(b)	39,248	-	-
Accretion of Cobb Creek obligation	5(d)	19,552	22,249	2,298
Interest and other income		(13,150)	(23,582)	(38,000)
Foreign exchange loss (gain)		(608,050)	542,343	(618,788)
Loss before income taxes		9,443,198	11,855,092	774,327
Tax (recovery)	5(e)	(69,072)	-	-
Loss for the year		9,374,126	11,855,092	774,327
Other comprehensive loss (gain)				
Net fair value gain on financial assets	5(d)	(15,000)	-	-
Exchange difference on translation of foreign operations		1,912,831	(3,290,026)	2,790,375
Comprehensive loss for the year		11,271,957	8,565,066	3,564,702
Loss per Contact Share	8(e)			
Basic and diluted loss per share		\$ 0.14	\$ 0.26	\$ 0.04
Weighted average number of Contact Shares (basic and diluted)		72,811,303	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)

	Shares (Notes 3, 5, 8, 15(c))	Amount	Contributed surplus (Notes 8(d), 15(a))	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity (deficit)
	#	\$	\$	\$	\$	\$
Balance as at December 31, 2016	2,769,486	250	-	-	(215,896)	(215,646)
Shares issued pursuant to private placements	23,815,000	21,157,500	-	-	-	21,157,500
Equity attributable to RTO	5,000,000	247,470	-	-	-	247,470
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	-	-	632,228	-	-	632,228
Restricted shares	100,000	-	18,056	-	-	18,056
Share issue costs	-	(1,561,052)	-	-	-	(1,561,052)
Cumulative translation adjustment	-	-	-	(2,790,375)	-	(2,790,375)
Loss for the year	-	-	-	-	(774,327)	(774,327)
Balance as at December 31, 2017	50,346,986	38,478,543	650,284	(2,790,375)	(990,223)	35,348,229
Shares issued pursuant to acquisition of East Bailey	250,000	112,500	-	-	-	112,500
Stock-based compensation	-	-	1,311,832	-	-	1,311,832
Restricted shares	-	34,722	33,333	-	-	68,055
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	38,625,765	1,995,449	499,651	(12,845,315)	28,275,550
Shares issued pursuant to private placement	9,827,589	2,850,001	-	-	-	2,850,001
Shares issued pursuant to public offering	20,000,000	4,000,000	-	-	-	4,000,000
Shares issued pursuant to conversion of private placement rights	2,047,398	39,248	-	-	-	39,248
Share issued pursuant to acquisition of Green Springs	2,000,000	400,000	-	-	-	400,000
Stock-based compensation	-	-	1,017,421	-	-	1,017,421
Restricted shares	-	33,333	-	-	-	33,333
Share issue costs	-	(1,386,160)	-	-	-	(1,386,160)
Cumulative translation adjustment	-	-	-	(1,897,831)	-	(1,897,831)
Loss for the year	-	-	-	-	(9,374,126)	(9,374,126)
Balance as at December 31, 2019	84,471,973	44,562,187	3,012,870	(1,398,180)	(22,219,441)	23,957,436

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

Contact Gold Corp.
Consolidated Statement of Cash Flows

(Expressed in Canadian dollars)

	Note	Year ended December 31, 2019 \$	Year ended December 31, 2018 \$	Year ended December 31, 2017 \$
Cash flows from operating activities				
Loss for the year		(9,374,126)	(11,855,092)	(774,327)
Adjusted for:				
Movements in working capital:				
Receivables		(65,490)	7,529	(20,429)
Prepays		159,433	11,922	(402,518)
Payables and accrued liabilities		(134,099)	393,971	290,042
Gains and losses relating to change in fair value of embedded derivatives	7	48,635	(461,261)	(5,799,607)
Change in fair value of Private Placement Rights	8(b)	39,248	-	-
Accretion of Contact Preferred Shares	7	2,218,595	1,842,900	899,655
Foreign exchange relating to Contact Preferred Shares	7	(610,407)	741,314	(620,321)
Stock-based compensation	8(d)	1,050,754	1,379,887	650,284
Write-down of exploration property interests	5(e)	1,381,434	85,176	-
Tax recovery on write-down of exploration properties	5(e)	(69,072)	-	-
Loss on disposal of exploration properties	5(e)	-	1,962,061	-
Accretion of Cobb Creek obligation	5(d)	19,552	22,249	2,298
Amortization	5	20,265	8,514	-
Interest income on cash and cash equivalents		-	-	37,508
Foreign exchange impact on translation of cash balances during the year		2,357	(198,971)	699
Net cash used in operating activities		(5,312,921)	(6,059,801)	(5,736,716)
Cash flows from investing activities				
Purchase of equipment		-	(38,314)	-
Transaction costs relating to acquisition of exploration properties	5(a)	(43,261)	(31,643)	(13,370)
Acquisition of Clover and Contact Gold Properties	3	-	-	(6,800,000)
Transaction costs relating to acquisition of Clover and Contact Gold Properties	3	-	-	(586,073)
Acquisition of remaining 51% of Cobb Creek		-	(38,871)	(38,379)
Transaction costs relating to acquisition of Cobb Creek		-	-	(3,398)
Recovery of reclamation deposit	4	188,975	-	-
Acquisition of Pony Spur and Dixie Flats		-	-	(100,755)
Purchase of short-term investments		-	-	(3,500,000)
Maturing of short-term investments		-	-	3,500,000
Cash acquired pursuant to RTO		-	-	40,390
Cash deposits for bonding and exploration activities		-	-	(188,545)
Cash receipt from disposal of exploration properties		-	639,959	-
Net cash due to (used in) investing activities		145,714	531,131	(7,690,130)
Cash flows from financing activities				
Cash received from Private Placement, net	8(b)	2,828,236	-	21,157,500
Share issue costs, paid on Private Placement	8(b)	(25,162)	-	(1,561,052)
Cash received from Public Offering, net	8(b)	3,469,277	-	-
Share issue costs, paid on Public Offering	8(b)	(808,510)	-	-
Change in working capital attributable to share issue costs		-	(313,220)	-
Net cash due to (used in) financing activities		5,463,841	(313,220)	19,596,448
Effect of foreign exchange on cash		2,371	210,796	6,406
Net increase (decrease) in cash		299,005	(5,631,094)	6,176,008
Cash at beginning of year		545,164	6,176,258	250
Cash end of the year		844,169	545,164	6,176,258
Supplemental cash flow information	12			

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

1. NATURE OF OPERATIONS

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)* on June 14, 2006.

The Company is 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.

The Company began trading on the TSX Venture Exchange ("TSXV") under the symbol "C" on June 15, 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation and going concern

These consolidated financial statements (the "Consolidated Financial Statements") have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") on a historical cost basis, except for financial instruments which have been measured at fair value, and are presented in Canadian dollars ("CAD), except where otherwise indicated.

The Consolidated Financial Statements include the accounts of Carlin Opportunities ("Carlin"), Contact Gold and Clover Nevada II LLC ("Clover"). As described at Note 3, the Company completed a reverse-acquisition ("RTO") transaction on June 7, 2017, and accordingly, pursuant to Financial Accounting Standards Board (the "FASB") Accounting Standards Codification ("ASC") 805, *Business Combinations* ("ASC 805"), Carlin has been identified as the accounting acquirer for accounting and financial reporting purposes, and is presented in the Consolidated Financial Statements as the parent company. Accordingly, the comparative financial information presented in the Consolidated Financial Statements includes the assets, liabilities and operations of Contact Gold and Clover only for periods subsequent to June 7, 2017. All significant intercompany transactions are eliminated on consolidation.

Contact Gold recorded a loss and comprehensive loss of \$11.27 million for the year ended December 31, 2019. As at December 31, 2019, Contact Gold has an accumulated deficit of \$22.22 million, and working capital of \$0.74 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 that these Consolidated Financial Statements are issued.

Consequently, management is pursuing various financing alternatives to fund operations and advance its business plan. 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") authorized the Consolidated Financial Statements on March 30, 2020.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Use of estimates and measurement uncertainties

The preparation of financial statements in accordance with U.S. GAAP requires the Company to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at each period end, and the reported amounts of expenses during the related reporting period.

The more significant areas requiring the use of management's estimates and assumptions include: the type and amount of exploration property acquisition and transaction costs eligible for capitalization, the assessment of impairment of mineral properties, the disclosed fair value of the Contact Preferred Shares' "host" instrument, the period end revaluation of the Contact Preferred Share embedded derivatives, the fair value of the Private Placement Rights, income taxes, and the valuation of share-based compensation.

To the extent possible, the Company bases its estimates on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from the amounts estimated in these Consolidated Financial Statements; 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 in the relevant notes to these financial statements.

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. Foreign exchange

Items included in the Consolidated Financial Statements are measured using the currency of the primary economic environment in which each 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 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 are translated into CAD at the exchange rate in effect at the balance sheet date, and non-monetary assets and liabilities are translated into CAD at the exchange rate in effect at the time of acquisition or issue. Pursuant to the relief provided under ASC 830, *Foreign Currency Matters*, and for those transactions that have occurred uniformly throughout the comparative periods, an average rate is used to translate income transactions.

Exchange differences arising from assets and liabilities held in foreign currencies, are recognized in other comprehensive gain or loss as cumulative translation adjustments.

e. Mineral properties, claims maintenance fees, and development costs

The Company has not yet established the existence of mineralized materials on any of its mineral property interests, as defined by the United States Securities and Exchange Commission (the "SEC") under Industry Guide 7, *Description of Property by Issuers Engaged or to be Engaged in Significant Mining Operations* ("Industry Guide 7"). As a result, the Company is in the "Exploration Stage", as defined under Industry Guide 7, and will continue to remain in the Exploration Stage until such time proven or probable reserves have been established. In accordance with U.S. GAAP, expenditures relating to the acquisition of mineral rights are initially capitalized as incurred. 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. Mineral property exploration expenditures and pre-extraction expenditures are expensed as incurred until such time as the Company exits the Exploration Stage by establishing proven or probable reserves. To date, no amounts have been capitalized in respect of development activities.

Companies in the "Production Stage", as defined under Industry Guide 7, having established proven and probable reserves and exited the Exploration Stage, typically capitalize expenditures relating to ongoing development activities, with corresponding depletion calculated over proven and probable reserves using the units-of-production method and allocated to future reporting periods to inventory and, as that inventory is sold, to cost of goods sold.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Mineral properties, maintenance fees, and development costs (continued)

The Company is in the Exploration Stage which has resulted in the Company reporting larger losses than if it had been in the Production Stage due to the expensing, instead of capitalization, of expenditures relating to the exploration and advancement of the Contact Gold Properties. Additionally, there would be no corresponding amortization allocated to future reporting periods of the Company since those costs would have been expensed previously, resulting in both lower inventory costs and cost of goods sold and results of operations with higher gross profits and lower losses than if the Company had been in the Production Stage. Any capitalized costs, such as expenditures relating to the acquisition of mineral rights, are depleted over the estimated extraction life using the straight-line method. As a result, the Company's consolidated financial statements may not be directly comparable to the financial statements of companies in the Production Stage.

The acquisition of title to mineral properties is a complicated and uncertain process. 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. Furthermore, 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. Significant expenditures are required to locate and estimate ore reserves, and further the development of a property. 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.

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 net income or loss for the applicable period.

f. Impairment of long-lived assets

At each reporting date, management assesses the possibility of impairment in the carrying value of long-lived assets, including capitalized acquisition costs, development costs, and prepaid claims maintenance fees, whenever events or circumstances indicate that the carrying amounts of the asset or asset group may not be recoverable. An impairment is determined to exist if the total projected future cash flows on an undiscounted pre-tax basis are less than the carrying amount of a long-lived asset or asset group. An impairment loss is measured with reference to the amount by which the carrying amount of the asset exceeds its fair value using market participant assumptions. Such fair value is determined with reference to ASC 820, *Fair Value Measurements and Disclosures*, as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Where practical, management calculates the estimated undiscounted future net cash flows relating to the asset or asset group using estimated future prices, proven and probable reserves and other mineral resources, and operating, capital and reclamation costs. In the case of exploration properties for which it is not possible to determine cash flow information, management considers, among other things, enterprise value to hectare (the size of the respective properties) as compared to that of a select group of peer companies' mineral property assets, an estimate of potential sales proceeds as compared to the carrying value of the property, and other similar factors which may indicate or question the potential economic value of an exploration property.

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 which 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.

Management's estimates of mineral prices, mineral resources, foreign exchange rates, production levels, operating capital requirements, and reclamation costs are subject to risk and uncertainties that may affect the determination of the recoverability of the long-lived asset.

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.

It is possible that material changes could occur that may adversely affect management's estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

g. Financial instruments and fair value accounting

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 consolidated balance sheets, 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.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the significance of the inputs used in making the measurement.

The three levels of the fair value hierarchy are as follows:

Level 1 — Unadjusted quoted prices (unadjusted) in active markets for identical assets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 — Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 — Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

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

Held-for-trading financial assets and liabilities are recorded at fair value as determined by active market prices or valuation models, as appropriate. Valuation models require the use of assumptions, which may include the expected life of the instrument, the expected volatility, dividend payouts, and interest rates. In determining these assumptions, management uses readily observable market inputs where available or, where not available, inputs generated by management. Changes in fair value of held-for-trading financial instruments are recorded in gain or loss for the period. The Company held no held-for-trading financial assets or liabilities as at December 31, 2019. 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. Certain inputs to the calculation of the value of the Embedded Derivatives use Level 2 and Level 3 inputs.

Available-for-sale financial assets are recorded at fair value as determined by active market prices. Unrealized gains and losses on available-for-sale investments are recognized in other comprehensive gain or loss. If a decline in fair value is deemed to be other than temporary, the unrealized loss is recognized in net loss (gain). Investments in equity instruments that do not have an active quoted market price are measured at cost. As at December 31, 2019, the Company has classified certain of its financial assets in this category.

Loans and receivables are recorded initially at fair value, net of transaction costs incurred, and subsequently at amortized cost using the effective interest rate method. Loans and receivables of Contact Gold are composed of 'Cash and Cash Equivalents' (Level 1); 'Receivables' (Level 2); and 'Bonding Deposits' (Level 2), and are classified as current or non-current assets according to their nature. The carrying value of the Company's loans and receivables as at December 31, 2019 approximate their fair value due to their short-term nature.

Other financial liabilities are recorded initially at fair value and subsequently at amortized cost using the effective interest rate method. Subsequently, these other financial liabilities 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. Other financial liabilities include payables and accrued liabilities (Level 2), the "host" element of the Contact Preferred Shares (Level 3) (Note 7), and the Cobb Creek obligation (Level 3) (Note 5(d)). Other financial liabilities are classified as current liabilities if payment is due within 12 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 2020 (Note 5(d)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

h. 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) 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 consolidated statements of loss and comprehensive loss. This amount represents the cumulative loss in accumulated other comprehensive loss that is reclassified to net loss.
- (ii) 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.

i. Reclamation and remediation costs

Contact Gold records provisions for reclamation and remediation based on the best estimate of costs for site closure and reclamation activities that the Company is required to undertake, and the liability is recognized at fair value at the time such environmental disturbance occurs. The liability is accreted over time through periodic charges to the consolidated statements of loss and comprehensive loss. In addition, the asset retirement cost is capitalized as part of the mineral property's carrying value and, upon commercial production, will be amortized over the life of the related mineral property. The capitalized amount is depreciated on the same basis as the related asset. Reclamation costs are periodically adjusted to reflect changes in the estimated present value resulting from the passage of time and revisions to the estimates of either the timing or amount of the reclamation costs. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation costs. Changes in reclamation estimates are reflected in earnings (loss) in the period an estimate is revised. Estimated reclamation obligations are based on when spending for an existing disturbance is expected to occur. The Company reviews, on an annual basis, unless otherwise deemed necessary, the reclamation obligation at each of its exploration properties in accordance with ASC guidance for asset retirement obligations.

Reflecting the level of disturbance as at December 31, 2019, and the timing of any potential reclamation activities, the Company has not accrued any provision for reclamation in the Consolidated Financial Statements.

j. Income taxes

The liability method of accounting for income taxes is used and is based on differences between the accounting and tax bases of assets and liabilities. Deferred tax assets ("DTA") and liabilities ("DTL") are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes using enacted income tax rates expected to be in effect for the period in which the differences are expected to reverse. The amount of a DTA is evaluated and, if realization is not considered more likely than not, a valuation allowance is provided.

k. Uncertainty in income tax positions

The Company recognizes tax benefits from uncertain tax positions only if it is at least more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. Any tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon settlement with the taxing authorities. Related interest and penalties, if any, are recorded as tax expense in the tax provision.

l. Share-based compensation

The Company grants share-based awards as an element of compensation. Share-based awards granted by the Company under the "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"; and together with DSUs, "Units"). Compensation expense for Options granted to employees and directors is determined based on estimated fair values of the Options at the time of grant using the Black-Scholes option pricing model, which takes into account, as of the grant date, the fair market value of the shares, expected volatility, expected hold period before exercise, expected dividend yield and the risk-free interest rate over the expected life of the Option. The determination of compensation expense also accounts for forfeitures related to service conditions by estimating the number of awards expected to be forfeited and adjusting the estimate when subsequent information indicates that the estimate is likely to change.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

l. Share-based compensation (continued)

The compensation expense is recognized using the graded attribution method over the vesting period of the respective Options. The expense relating to the fair value of Options is included as such on the consolidated statements of loss and comprehensive loss, or included within exploration and evaluation expenditures; and is credited to contributed surplus. Compensation expense for Units and/or Restricted Shares granted to employees or directors is determined based on estimated fair values of the Units or Restricted Shares at the time of grant using quoted market prices or at the time the Units qualify for equity classification under ASC 718, *Compensation-Stock Compensation* ("ASC 718"). The cost is recognized using the graded attribution method over the vesting period of the respective Units. The expense relating to the fair value of the Units or Restricted Shares is included in expenses and is credited to other liabilities or contributed surplus based on the instrument's classification. Withholding tax on share-based compensation is classified as a financing activity on the consolidated statement of cash flows. Options and Units are settled in common shares of the Company ("Contact Shares") issued from treasury.

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

m. Comprehensive Loss

In addition to the loss for a given period, 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.

n. Income and loss per share

Income and loss per common share is calculated by deducting both the dividends declared in the period (whether or not paid) and the dividends accumulated for the period on the Contact Preferred Shares (whether or not earned) from the income or loss for the period, and dividing the result by the weighted average number of Contact Shares outstanding during the period. The Company follows the treasury stock method in the calculation of diluted income or loss per share. Under the treasury stock method, the weighted average number of Contact Shares outstanding used for the calculation of diluted income or loss per share assumes that the proceeds to be received on the exercise of dilutive Options, share purchase warrants or Contact Preferred Shares are used to repurchase common shares at the average market price during the period.

o. Accounting standards adopted

Statement of cash flows

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments* ("ASU 2016-15"). This update addresses 8 specific cash flow issues with the objective of reducing the diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. ASU No. 2016-15 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. In November 2016, the FASB issued guidance regarding the presentation of restricted cash in the statement of cash flows ("ASU 2016-18"). This update is effective for annual reporting periods beginning after December 15, 2017, and early adoption is permitted. The Company analyzed the impact of these updates and determined that the clarification under both ASU 2016-15 and 2016-18 had no effect on the Company's presentation on its statement of cash flows, and there were accordingly no changes as a result of adoption.

Business combinations

In January 2017, the FASB issued new guidance to assist in determining if a set of assets and activities being acquired or sold is a business ("ASU 2017-01"). It also provided a framework to assist entities in evaluating whether both an input and a substantive process are present, which at a minimum, must be present to be considered a business. This update is effective for annual reporting periods beginning after December 15, 2017, and early adoption is permitted in most circumstances. The Company early adopted these standards during the year and elected to apply this new guidance on a retrospective basis. There was no impact from the adoption of this standard on the Company's historical recognition of asset acquisitions and business combinations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Accounting standards adopted (continued)

Financial instruments

In March 2016, the FASB issued new guidance which updates certain aspects of the recognition, measurement, presentation and disclosure of financial instruments ("ASU 2016-01"). The update to the standard was adopted by the Company beginning January 1, 2018. The new guidance requires entities to measure equity investments (except those accounted for under the equity method, those that result in consolidation of the investee and certain other investments) at fair value and recognize any changes in fair value in operations. Transitional guidance provided that entities with unrealized gains or losses on available for sale equity securities were required to reclassify those amounts to beginning retained earnings in the year of adoption. The Company analyzed the impact of this new guidance updates and determined there to be no affect on the Company's financial statements, and there was accordingly no change as a result of adoption.

Leases

Effective January 1, 2019, the Company adopted ASC 842, *Leases* ("ASC 842"), electing to use a package of three practical expedients as part of a required modified retrospective transition method. ASC 842 revises existing practice related to accounting for leases under ASC Topic 840, *Leases* ("ASC 840"), the previous accounting standard, for both lessees and lessors. The new guidance in ASC 842 requires lessees to recognize a right-of-use asset and a lease liability for virtually all of their leases (other than leases that meet the definition of a short-term lease, particularly those with a term of 12 months or less). In January 2018, the FASB issued ASU 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*. This update permits an entity to elect an optional transitional practical expedient to not evaluate land easements that exist or expire before the Company's adoption of ASC 842 that were not previously accounted for as leases under ASC 840. The Company has elected this transitional provision.

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The lease liability, recognized at the lease commencement date, will be equal to the present value of lease payments; and the right-of-use asset will be based on the lease liability, subject to adjustment such as for initial direct costs. For the purposes of the statement of loss and comprehensive loss, the new standard retains a dual model similar to ASC 840, requiring leases to be classified as either operating or finance. For lessees, operating leases will result in straight-line expense in net loss (gain) over the term of the lease (similar to prior practice of accounting by lessees for operating leases under ASC 840), while finance leases will result in a front-loaded expense pattern (similar to accounting by lessees for capital leases under ASC 840).

The Company elected to account for certain arrangements, including its Vancouver and Nevada offices, as short-term, and has thus not recognized a lease liability and corresponding right-of-use asset for these arrangements.

There was no consequential impact upon adoption for any period, and accordingly, although there was notional application of the package of practical expedients on adoption, there has been no restatement of prior periods, nor any adjustment to the retained earnings.

Stock-based compensation

According to ASU No. 2018-07, nonemployee share-based payment awards within the scope of Topic 718 are measured at grant-date fair value of the equity instruments that an entity is obligated to issue when the good has been delivered or the service has been rendered and any other conditions necessary to earn the right to benefit from the instruments have been satisfied. The amendments in ASU No. 2018-07 are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year.

Codification Improvements

In July 2018, the FASB issued ASU 2018-09, *Codification Improvements* ("ASU 2018-09"). ASU 2018-09 provides amendments to various topics in the FASB's Accounting Standards Codification, which applies to all reporting entities within the scope of the affected accounting guidance. The transition and effective date guidance are based on the facts and circumstances of each amendment. Some of the amendments in ASU 2018-09 do not require transition guidance and were effective upon issuance of ASU 2018-09. However, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018.

There was no notable impact upon adoption of any of the improvements provided for in ASU 2018-09.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

p. Accounting policies not yet adopted

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments* (ASU "2016-13"). ASU 2016-13 will change how companies account for credit losses for most financial assets and certain other instruments. For trade receivables, loans and held-to-maturity debt securities, companies will be required to estimate lifetime expected credit losses and recognize an allowance against the related instruments. For available-for-sale debt securities, companies will be required to recognize an allowance for credit losses rather than reducing the carrying value of the asset. The adoption of this update will result in earlier recognition of losses and impairments.

In November 2018, the FASB issued ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses* ("ASU 2018-19"). ASU 2018-19 introduced an expected credit loss methodology for the impairment of financial assets measured at the amortized cost basis. That methodology replaces the probable, incurred loss model for those assets. ASU 2018-19 is the final version of Proposed Accounting Standards Update 2018-270, which has been deleted. Additionally, the amendments clarify that receivables arising from operating leases are not within the scope of Subtopic 326-20. Instead, impairment of receivables arising from operating leases should be accounted for in accordance with ASC 842.

These updates are effective for fiscal years beginning after December 15, 2019, and the Company is currently evaluating ASU 2016-13 and 2018-19 and the potential impact of adopting this guidance on its financial reporting.

Changes to the Disclosure Requirements for Fair Value Measurement

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"). This update modifies the disclosure requirements for fair value measurements by removing, modifying or adding disclosures. ASU 2018-13 is effective for fiscal years beginning after December 15, 2019, and early adoption is permitted. Certain disclosures in the update are applied retrospectively, while others are applied prospectively. The Company is currently evaluating the potential impact of adopting this guidance on its financial statements.

Simplifying the Accounting for Income Taxes

In December 2019, the FASB issued "ASU 2019-12", *Income Taxes - Simplifying the Accounting for Income Taxes* ("Topic 740") which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. ASU 2019-12 will be effective for interim and annual periods beginning after December 15, 2020. Early adoption is permitted. The Company is currently evaluating the impact the adoption of ASU 2019-12 will have on its consolidated financial statements.

CONTACT GOLD CORP.

Notes to the Consolidated Financial Statements for the years ended December 31, 2019, 2018 and 2017 (Expressed in Canadian dollars)

3. 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, 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, 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 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; and
4. the authorization for Winwell to continue into the State of Nevada, and to change its name to "Contact Gold Corp."

Pursuant to the Acquisition, 91.2% of the Contact Shares were issued to the Carlin Shareholders, yielding them control of the Company. 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 Contact Shares.

The substance of the Acquisition was determined to be an RTO of a non-operating company. However, as a non-operating company lacking an integrated set of activities and assets capable of being conducted and managed for the purpose of providing a return, or other economic benefits, directly to its investors, Winwell did not constitute a business. As a result, the Acquisition was accounted for as a capital reorganization, with Carlin identified as the accounting acquirer. Accordingly, the Consolidated Financial Statements reflect the continuation of the financial statements of Carlin, with one adjustment, which is to retroactively adjust Carlin's legal capital in order to reflect the capital of Winwell (2,769,486 Contact Shares), the accounting acquiree, as the legal parent of the consolidated entity. Financial information presented in these Consolidated Financial Statements relating to periods prior to the closing of the Arrangement is also retroactively adjusted to reflect the legal capital of Winwell.

The transaction has been measured at the carrying value of the net assets of Winwell that were acquired of \$568,738, less RTO transaction costs of \$321,268. Accordingly, the amount of equity attributable to the RTO was \$247,470¹.

b) Clover Acquisition

Winwell and Carlin, together with Waterton Nevada Splitter, LLC ("Waterton Nevada"), and 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 Arrangement, acquired 100% of the membership interests of Clover, the entity holding a portfolio of 13 gold properties located on Nevada's Carlin, Independence and Northern Nevada Rift gold trends (the "Contact Properties")(Note 5), in exchange for:

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

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

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

The total of consideration paid (\$41,123,093) and transaction costs ("Acquisition Costs") incurred (\$586,073) was allocated to the assets acquired, including the Contact Properties (\$43,123,284) (Note 5) and prepaid Claims Maintenance fees (\$149,724) based on relative fair values at that time.

¹ Transaction costs directly relating to the RTO incurred by Carlin in the amount of \$321,268 (of which \$58,152 had been incurred through December 31, 2016 and deferred), were recorded as a charge to retained earnings of Contact Gold to the extent of Winwell's cash balance (\$361,658) immediately prior to closing the Transactions. Accordingly, the balance of cash recognized as acquired from Winwell is \$40,390 on closing of the Transactions.

CONTACT GOLD CORP.**Notes to the Consolidated Financial Statements
for the years ended December 31, 2019, 2018 and 2017
(Expressed in Canadian dollars)****4. PREPAIDS AND DEPOSITS**

Prepaid expenses include \$256,936 (December 31, 2018: \$406,633) in Claims Maintenance fees. Such fees to the BLM, cover the twelve-month period ranging from September 1 to August 31 of the subsequent year. Fees paid to the respective Nevada counties cover the twelve-month period from November 1 to October 31 of the subsequent year. Fees paid pursuant to private property lease and other similar land use arrangements cover the 12-month period of their respective anniversaries.

Pursuant to the Cobb Creek Option (Note 5(d)), an amount of \$38,407, was due from Fremont and credited to the balance of prepaid Claims Maintenance fees pursuant to the terms of the Cobb Creek farm-out (Note 5(d)). 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 in 2018 (Note 5(e)).

During the year ended December 31, 2019, the Company established a surety bonding arrangement with a third-party (the "Surety"). As a consequence of the Surety, USD 150,000 previously held by the BLM in order to satisfy bonding requirements to secure eventual reclamation on operations conducted at Pony Creek and the Company's other exploration property interests were replaced. Accordingly, during the year ended December 31, 2019, the Company recovered \$188,975 in bonding amounts previously recognized as a non-current deposit (the "Bonding Deposit"). A finance fee, recognized within Interest and other income, is charged monthly on the full balance of the Surety amount.

5. EXPLORATION PROPERTIES

Pursuant to the Clover 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. Clover is the legal entity that holds the mineral property rights and interests that comprise the Contact Properties.

The total of consideration paid, and Acquisition Costs incurred, to acquire Clover in June 2017 was allocated to the Contact Properties and prepaid Claims Maintenance fees (Note 4), acquired based on relative fair values as at the date of the Transactions. Consideration paid comprised Contact Shares, Contact Preferred Shares (Note 7) and a total of \$7,000,000 in cash (\$200,000 of which had been paid in 2016). Upon closing of the Transactions, the Company recognized deferred tax liabilities of \$2,149,915 arising from the application of Nevada net proceeds tax (the "NNPT", calculated at a rate of 5%) on the values of the Contact Properties. The DTL amount is subject to change reflective of the carrying value of the properties from period to period and the impact thereon of changes to the rates of foreign exchange.

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.

With the exception of the Cobb Creek property (nil%), the Contact Properties each carry a net smelter returns ("NSR") royalty of between 2% and 4%, in favour of Waterton Nevada, some of which include buy-down options.

	Pony Creek (a)	South Carlin Projects (b)	Green Springs (c)	Cobb Creek (d)	Portfolio properties (e)	Total
	\$	\$	\$	\$	\$	\$
December 31, 2017	26,907,567	4,082,556	-	287,346	9,219,900	40,497,369
Additions	165,195	-	-	-	-	165,195
Disposals & Abandonments	-	-	-	-	(2,608,188)	(2,608,188)
Foreign Exchange	2,352,936	356,999	-	25,128	557,879	3,292,942
December 31, 2018	29,425,698	4,439,555	-	312,474	7,169,591	41,347,318
Additions	-	-	466,857	-	-	466,857
Recovery from earn-in	-	-	-	(88,163)	-	(88,163)
Disposals & Abandonments	-	-	-	-	(1,381,434)	(1,381,434)
Foreign Exchange	(1,410,674)	(212,830)	(5,200)	(18,599)	(333,262)	(1,980,565)
December 31, 2019	28,015,024	4,226,725	461,657	205,712	5,454,895	38,364,013

5. EXPLORATION PROPERTIES AND DEFERRED ACQUISITION COSTS (continued)

a) Pony Creek

The Pony Creek project is located within the Pinion Range, in western Elko County, Nevada.

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 in directly attributable expenditures incurred relating to the East Bailey acquisition has also been included in "Additions" (\$7,538 of which was incurred and accounted for in the year ended December 31, 2017). A DTL for the NNPT, and a foreign exchange adjustment were also recognized on the acquisition. 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.

There is a 3% NSR royalty on those claims that comprise Pony Creek acquired from Waterton Nevada. The Company determined to allow a 1% buy-down option of this NSR to lapse on February 7, 2020, when such option expired.

b) South Carlin Projects: Dixie Flats & North Star

The North Star property is located approximately eight kilometres north of the northern-most point of Pony Creek, in western Elko County, Nevada. There is a 3% NSR on the North Star property.

The Dixie Flats property sits immediately to the north of the North Star property. There is a 2% NSR on the Dixie Flats property payable to an affiliate of Waterton Nevada. The Company determined to allow a 1% buy-down option of this NSR to lapse on February 7, 2020, when such option expired.

c) Green Springs

On July 23, 2019, Contact Gold and Clover entered into a purchase option agreement (the "Green Springs Option") with subsidiaries of Ely Gold Royalties Inc. ("Ely Gold"), whereby Clover shall have an option to purchase a 100% interest in the past-producing Green Springs gold property ("Green Springs"). Green Springs is located at the southern end of Nevada's Carlin Trend, 60 km southwest of Ely, Nevada.

Contact Gold issued 2,000,000 Contact Shares (valued at \$400,000) and paid USD 25,000 (\$32,855) in cash to Ely Gold to secure Green Springs. The Company also paid Ely Gold an additional USD 6,125 (\$8,049) as reimbursement for Claims Maintenance fees relating to the current period. The Company incurred \$11,003 in direct expenditures to secure the Green Springs Option. A DTL for the NNPT, and a foreign exchange adjustment were also recognized pursuant to the acquisition. Total additional consideration to satisfy the Green Springs Option, and complete the acquisition of Green Springs, is as follows:

- USD 50,000 first anniversary
- USD 50,000 second anniversary
- USD 50,000 third anniversary
- USD 100,000 fourth anniversary

Anniversary payment amounts may be made in cash or in Contact Shares at Contact Gold's election, subject to regulatory and contractual minimum values of the Common Shares. Payment of all amounts can be accelerated and completed at any time. Certain claims within Green Springs are the subject of lease agreements with third-parties, one of which requires an annual USD 25,000 payment, whilst the other requires an annual payment in cash equal to the value of 20 ounces of gold. Existing royalties on certain mineral property claims that comprise Green Springs range from 3% to 4.5%, based on historical underlying agreements.

d) Cobb Creek

Upon closing of the Clover Acquisition, the Company acquired a 49% interest in the Cobb Creek property located in Elko County, Nevada. The Company subsequently acquired the remaining 51% interest, and related historic data, in exchange for six annual payments of USD 30,000, the first of which was paid on closing of the agreement (\$38,379). The discounted value of the annual payments at the time of the transaction was \$114,329 (the "Cobb Creek obligation"). The total value of 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 (Note 7). The third annual payment of USD 30,000 (\$38,964) was made in November 2019.

The remaining Cobb Creek obligation is recorded to the consolidated balance sheets as a current (\$33,376) and non-current amount (\$51,622) as at December 31, 2019 (\$35,073 and \$75,029, respectively as at December 31, 2018). Accretion expense of \$19,552, and a foreign exchange loss of \$13,860 have been recorded within other comprehensive loss for the year ended December 31, 2019 (\$22,249 and \$9,383, respectively, for the year ended December 31, 2018).

CONTACT GOLD CORP.

Notes to the Consolidated Financial Statements
for the years ended December 31, 2019, 2018 and 2017
(Expressed in Canadian dollars)

5. EXPLORATION PROPERTIES AND DEFERRED ACQUISITION COSTS (continued)

d) Cobb Creek (continued)

By an agreement dated September 27, 2019, as amended (the "Cobb Creek Option"), Clover agreed to farm-out 100% of its interest in the Cobb Creek exploration property ("Cobb Creek") to Fremont Gold Ltd. and its U.S. subsidiary (together, "Fremont"). Pursuant to the Cobb Creek Option, and for so long as it remains in good standing, the Company has assigned its agreement with the Cobb Counterparty, and all associated obligations to Fremont. Upon completion of the farm-out, Fremont will award to Clover a 2.0% NSR on Cobb Creek.

Initial consideration included (i) 750,000 common shares of Fremont ("Fremont Shares") (valued at \$41,250), a Level 1-type financial asset, (ii) reimbursement of USD 6,000 (\$7,949) for a portion of the prior year payment to the Cobb Counterparty, and (iii) reimbursement for the November 2019 payment to the Cobb Counterparty of USD 30,000 (\$38,964). As at December 31, 2019, the reimbursement amounts due from Fremont remained receivable (Note 15(b)). An amount of USD 29,569 (\$38,407) was also reimbursable from Fremont for certain claims-related holding costs, the amount of which has been applied against prepaid Claims Maintenance fees (Note 4).

In order to keep the Cobb Creek Option in good standing, and to complete the acquisition of Cobb Creek, Fremont must keep all claims in good standing, make the annual payments to the Cobb Counterparty, and remit the following consideration to the Company:

- Anniversary 1 (Year 2) USD 30,000; and 750,000 Fremont Shares.
- Anniversary 2 (Year 3) USD 20,000
- Anniversary 3 (Year 4) USD 20,000
- Anniversary 4 (Year 5) USD 25,000
- Anniversary 5 (Year 6) USD 35,000
- Anniversary 6 (Year 7) USD 45,000
- Anniversary 7 (Year 8) USD 55,000
- Anniversary 8 (Year 9) USD 65,000
- Anniversary 9 (Year 10) USD 75,000

The value of the Fremont Shares received, and the amount receivable relating to the reimbursement of the payment to the Cobb Counterparty have been applied against the carrying value of Cobb Creek. The reimbursement receivable for those claims-related fees have been applied against the balance previously recognized as prepaid Claims Maintenance fees (Note 4).

e) Portfolio properties

Balances presented as Portfolio properties include the remaining Contact Properties. Those specific properties for which there was a change are summarized below:

Dry Hills and Rock Horse

During the year ended December 31, 2019, the Company determined to abandon those mineral property claims that comprise the Dry Hills, and Rock Horse properties; accordingly, the carrying value of these properties was written down by \$1,381,434 to \$nil, with a tax recovery of \$69,072 recognized to the statement of loss and comprehensive loss.

Santa Renia and Golden Cloud

By an agreement dated November 5, 2018 (the "GC&SR Disposal"), the Company disposed of the Golden Cloud and Santa Renia properties to Waterton Nevada in exchange for aggregate cash consideration of \$560,951 (Note 10). The Company recognized a \$1,962,061 loss on the transaction in the year ended December 31, 2018. Waterton Nevada also reimbursed the Company for \$79,008 (USD 60,975) in Claims Maintenance fees relating in aggregate to the two properties (Note 4).

Woodruff

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 was written down by \$85,176 to \$nil. On April 1, 2019, the Company entered into a lease agreement with an arm's length party for the Woodruff property. Lease payments received to date of \$1,851 (USD 1,395) have been recognized within interest and other income on the consolidated statement of loss for the year ended December 31, 2019. The third-party operating Woodruff is responsible to pay the annual Claim Maintenance fees throughout the 10-year lease period. The lessee also holds an option to purchase Woodruff for a cash payment of USD 160,000.

CONTACT GOLD CORP.**Notes to the Consolidated Financial Statements
for the years ended December 31, 2019, 2018 and 2017
(Expressed in Canadian dollars)****5. EXPLORATION PROPERTIES AND DEFERRED ACQUISITION COSTS (continued)**

Exploration and evaluation expenditures expensed to the consolidated statements of loss and comprehensive loss

Exploration and evaluation expenditures incurred by Contact Gold, including ongoing amortization of prepaid Claims Maintenance fees (Note 4), have been cumulatively expensed in the consolidated statements of loss and comprehensive loss.

Details of exploration and evaluation activities, and related expenditures incurred are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Drilling, assaying & geochemistry	\$ 1,001,301	\$ 1,903,760	\$ 2,229,200
Wages and salaries, including share-based compensation	790,109	635,475	274,137
Amortization of Claims Maintenance fees	548,134	757,652	499,668
Geological contractors/consultants & related crew care costs	602,938	987,192	1,022,637
Permitting and environmental monitoring	60,084	163,300	191,174
Property evaluation and data review	36,116	-	45,879
Expenditures for the period	\$ 3,038,682	\$ 4,447,379	\$ 4,262,695
Cumulative balance	\$ 11,748,756	\$ 8,710,074	\$ 4,262,695

Wages and salaries through December 31, 2019, include share-based compensation of \$152,962 (2018: \$177,653; and 2017: \$80,770) (Note 8(d)). An amount of \$12,422 (2018: \$8,514; and 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 specific Contact Properties are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Pony Creek	\$ 2,221,756	\$ 3,854,801	\$ 3,952,719
South Carlin Projects	68,623	113,656	61,142
Green Springs	505,328	-	-
Cobb Creek	45,020	149,841	20,605
Portfolio properties	161,839	329,081	182,350
Property evaluation and data review	36,116	-	45,879
Expenditures for the period	\$ 3,038,682	\$ 4,447,379	\$ 4,262,695
Cumulative balance	\$ 11,748,756	\$ 8,710,074	\$ 4,262,695

6. PAYABLES AND ACCRUED LIABILITIES

	As at December 31, 2019	As at December 31, 2018
Payables	\$ 185,416	\$ 726,738
Accrued liabilities	282,642	159,193
	\$ 468,058	\$ 885,931

Payables and accrued liabilities are non-interest bearing. The Company's normal practice is to settle payables within 30-days, or as credit arrangements will allow (Note 10).

CONTACT GOLD CORP.**Notes to the Consolidated Financial Statements
for the years ended December 31, 2019, 2018 and 2017
(Expressed in Canadian dollars)****7. REDEEMABLE PREFERRED STOCK**

On June 7, 2017, as partial consideration for the Clover 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, and has priority over any other dividends declared on other classes of the Company's stock.

As a contract to buy non-financial assets (the Contact 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"). 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.

Industry standard methodology was used to determine 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.

Preferred Shares (host)

The host instrument was initially recorded at fair value of USD 6,033,480 (\$8,140,371) and for disclosure purposes is revalued each period-end using the same approach as described to revalue the Embedded Derivatives. 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, 2019 is USD 10,893,698 (\$14,148,735). The fair value will differ from the amount recognized in the Consolidated Financial Statements which is accounted for using the amortized cost basis.

The carrying value, including the aggregate Dividend amount for the term to the Maturity Date, has been recognized as a financial liability at amortized cost. Recognition of the host at amortized cost is in view of the i) Dividend being at a fixed rate, and ii) mandatory redemption feature of the instrument, both of which are payable in cash on the Maturity Date. Mandatorily redeemable instruments are classified as liabilities pursuant to ASC 480, *Distinguishing Liabilities From Equity*, therefore any dividends or accretion on instruments that have a legal form of equity should generally be presented as interest expense. At December 31, 2019, the cumulative amount of the accrued Dividend reflected in the accretion expense is \$2,775,705 (December 31, 2018: \$1,779,776).

Using the effective interest rate method, at a rate of 18.99%, the Contact Preferred Shares are carried at amortized cost each period end, with an accretion expense recorded to the consolidated statements of loss and comprehensive loss.

A summary of changes to the value of the Contact Preferred Shares host instrument, including the impact from change to the foreign exchange rate for the periods from issuance on June 7, 2017 to December 31, 2019 is set out below:

June 7, 2017	\$ 8,140,371
Accretion	899,655
Foreign exchange	(620,321)
December 31, 2017	\$ 8,419,705
Accretion	1,842,900
Foreign exchange	741,314
December 31, 2018	\$ 11,003,919
Accretion	2,218,595
Foreign exchange	(610,407)
December 31, 2019	\$ 12,612,107

7. REDEEMABLE PREFERRED STOCK (continued)

Pref Share Embedded Derivatives

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 effective conversion price and number of Contact Shares issuable on conversion). Accordingly, the Embedded Derivatives are valued together as one compound instrument.

As at December 31, 2019, the Pref Share Rights for which there is separate accounting from the host contract are as follows:

- i. The "*Conversion Option*": 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 (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 "COC Redemption Amount", unless such change in control transaction is with Waterton Nevada.

The COCROption 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. With the passing of the second PShare Anniversary, the inclusion of only the 115% of Redemption Amount calculation remains valid at year end.

The total estimated fair value of the Embedded Derivatives at issuance was USD 5,066,520 (\$6,846,649). This amount was recorded as part of the convertible redeemable preferred stock obligation on the consolidated balance sheets. 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 40.7% (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, and included in such determination.

At June 30, 2019, the Company reassessed its assumption as to the earliest date on which the EROption might be exercised. This increased the total estimated fair value of the Embedded Derivatives by an incremental \$177,989 over that which would have otherwise been determined on that date. There were no subsequent reassessments through December 31, 2019.

There is an inverse correlation of the fair value of the Embedded Derivative 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 Derivative from period to period.

CONTACT GOLD CORP.
Notes to the Consolidated Financial Statements
for the years ended December 31, 2019, 2018 and 2017
(Expressed in Canadian dollars)

7. REDEEMABLE PREFERRED STOCK (continued)

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

June 7, 2017	\$ 6,846,649
Change in fair value	(5,799,607)
December 31, 2017	1,047,042
Change in fair value	(461,261)
December 31, 2018	585,781
Change in fair value	48,636
December 31, 2019	\$ 634,417

The amounts of these changes are reflected as the change in fair value of Embedded Derivatives on the consolidated statements of loss and comprehensive loss.

Other Pref Share Rights

In addition to the Embedded Derivatives, the Pref Share Rights include certain additional rights, privileges, restrictions and conditions ("Other Terms") for which there is no accounting impact. The Other Terms include a right of first offer, and a right of first refusal relating to proposed sale, lease or disposal of its interests in the originally acquired Contact Properties, as well as a requirement to obtain Waterton Nevada's prior written consent should the Company propose to dispose of all or substantially all of its assets. Furthermore, in the event of a liquidation, dissolution or winding-up of Contact Gold or other distribution of the Company's assets 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 Acquisition Costs 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 period end, the number of Contact Shares to be issued would be 10,679,022 if all of the outstanding Contact Preferred Shares had been converted into Contact Shares. Diluted loss per share does not include the effect of such issuance (December 31, 2018: nil), as the Contact Preferred Shares are currently anti-dilutive.

8. 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 US\$0.001, voting and participating; and
- (ii) up to 15,000,000 Class A non-voting Contact Preferred Shares (Note 7).

b) Issued and outstanding common shares

Changes in issued common share capital during the year ended December 31, 2019:

- (i) *2019 Private Placement:* On March 14, 2019, the Company closed a non-brokered private placement of 9,827,589 Contact Shares (the "2019 Private Placement") at a price of \$0.29 per Contact Share (the "Initial Placement Price") for proceeds of \$2,850,001. Each Contact Share was accompanied by one right (a "Private Placement Right") which, subject to the rules and limitations of the TSXV, was automatically convertible to a certain number of additional Contact Shares without payment of additional consideration, upon the earlier of:
 - (a) the closing of a public offering registered or qualified under the United States' 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 2019 Private Placement ("Time Deadline").
 (together, (a), (b), (c), the "Conversion Scenarios").

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

b) Issued and outstanding common shares (continued)

Changes in issued common share capital during the year ended December 31, 2019 (continued):

(i) 2019 Private Placement (continued):

In each instance a participant in the 2019 Private Placement would receive that number of additional Contact Shares such that the average price per Contact Share issued in aggregate, was effectively discounted from the Initial Placement Price (the "Placement Price"), determined as follows:

- (i) if the offering price of common stock sold in a Qualified Offering was greater than the Initial Placement Price, the number of additional Contact Shares would be that which provides a 5% discount to that Initial Placement Price; or
- (ii) if the offering price of Contact Shares sold in a Qualified Offering was equal to or less than the Initial Placement Price, the number of additional Contact Shares would be that which provides a 10% discount to that Qualified Offering Price; or
- (iii) in the event of a Change of Control, the number of additional Contact Shares would be that which provides a 5% discount to that Initial Placement Price; or
- (iv) in the event of conversion at the Time Deadline, the number of additional Contact Shares would be that which provides the maximum allowable discount prescribed pursuant to the rules of the TSXV.

The Company accounted for the Private Placement Rights as a derivative instrument classified as a Level 3-type current financial liability carried at fair value through profit or loss, and furthermore, because the Private Placement Rights were not separable legally or practically from each other, they were treated as one instrument.

The initial recognition of the Private Placement Rights considered the total consideration received by the Company in the 2019 Private Placement. The Company used the residual method to allocate the value of proceeds received between the Private Placement Rights and the Contact Shares. The Private Placement Rights were measured and recognized at their initial fair value, less directly attributable transaction costs, and the residual was allocated to those Contact Shares issued on initial closing

The total estimated fair value of the Private Placement Rights at issuance was \$370,232, and the initial value of the Contact Shares recognized on the consolidated statement of equity was, accordingly \$2,479,769. In determining the fair value of the Private Placement Rights, it was necessary for the Company to make certain judgments relating to the probability and timing of the occurrence of each of the Conversion Scenarios. It was also 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 share price volatility.

The valuation was undertaken using certain observable and unobservable inputs in multiple Monte Carlo simulations. Significant inputs into the determination of fair value on the date of issuance included the following: (i) the price of the Contact Shares on the TSXV, (ii) the annualized historical volatility of the price of the Contact Shares on the TSXV (range: 85.8% - 92.3%), (iii) risk-free rates, and (iv) probability weightings for the likelihood and potential timing of each of the respective Conversion Scenarios determined by management, as well as expectations relating to the discount to be expected in a Qualified Offering.

The Company based its judgments and assumptions on parameters relevant to the initial closing date for the Private Placement on March 14, 2019. There is significant complexity to the interplay and impact of these various inputs and the quantum resultant from these relationships. The nature of these judgments and assumptions, and the factors management considered in determining the resultant calculation, are inherently uncertain and subject to change from period to period.

A total of \$40,923 in associated share issue costs were recognized in equity, of which \$21,750 in finders' fees were net settled on closing of the 2019 Private Placement. All securities offered pursuant to the 2019 Private Placement are restricted securities under Rule 144 under the Securities Act.

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

b) Issued and outstanding common shares (continued)

Changes in issued common share capital during the year ended December 31, 2019 (continued):

(ii) *Prospectus Offering*: On May 22, 2019, pursuant to a prospectus supplement (the "Prospectus Supplement") to a short-form base prospectus (the "Shelf Prospectus") filed with the securities regulatory authorities in each of the provinces and territories of Canada, except Québec (the "Commissions"), and an offering statement filed on Form 1-A, which includes an offering circular (the "Offering Statement"), pursuant to Regulation A under the Securities Act, filed with the United States Securities and Exchange Commission, the Company closed an offering of 20,000,000 Contact Shares at a price of \$0.20 per Contact Share (the "Prospectus Offering"). Share issue costs of \$1,327,412 associated with the Prospectus Offering, \$313,220 of which had been recognized as deferred on the consolidated statement of financial position at December 31, 2018, were recorded to equity in the period. Share issue costs also includes an amount of \$530,723 in fees paid to the underwriters of the Prospectus Offering, including certain expenditures incurred by the underwriters that were net settled on closing of the Prospectus Offering.

(iii) *Conversion of Private Placement Rights*: Pursuant to having closed the Prospectus Offering at an issue price lower than the Placement Price, the 2019 Private Placement "Qualified Offering" criterion was met, and on May 22, 2019 an additional 2,047,398 Contact Shares were issued on conversion of the Private Placement Rights.

An additional \$6,004 in share issue costs associated with the conversion of the Private Placement Rights were consequently recognized in equity. All securities offered pursuant to the conversion of the Private Placement Rights are restricted securities under Rule 144 under the Securities Act.

A summary of changes to the value of the Private Placement Rights is set out below:

Fair value as at March 14, 2019	\$ 370,232
Change in fair value	39,248
Fair value as at May 22, 2019	\$ 409,480

Upon conversion of the Private Placement Rights and issuance of the additional Contact Shares, \$409,480 was recognized to equity, with an adjustment to the statement of loss and comprehensive loss for the \$39,248 change in fair value.

(iv) *Green Springs Option*: Pursuant to acquiring the Green Springs Option, the Company issued 2,000,000 Contact Shares on July 23, 2019 to Ely Gold (Note 5(c)).

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

(i) *East Bailey Acquisition*: On February 5, 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 5(a)).

c) Escrowed Contact Shares and other restrictions and obligations

As at December 31, 2019, 3,511,538 (December 31, 2018: 10,534,611) of the Contact Shares were held in escrow and restricted from trading until June 14, 2020, pursuant to the rules of the TSXV.

In addition to having a right to receive regular updates of technical information about Contact Gold, one shareholder was provided a right to maintain its pro rata ownership percentage of Contact Gold during future financings.

d) Equity remuneration

Pursuant to the "Contact Gold Omnibus Stock and Incentive Plan" (the "Incentive Plan"), the "Contact Gold Restricted Share Unit Plan", and the "Contact Gold Deferred Share Unit Plan", the Company has established equity remuneration plans, that contemplate the award of Options, Restricted Shares, DSUs, and RSUs, all in compliance with the TSXV's policy for granting such awards.

Share-based compensation expense for the year ended December 31, 2019, includes an allocation of \$33,333 relating to previously awarded Restricted Shares, was \$817,792 (December 31, 2018: \$1,202,235; and December 31, 2017: \$569,514). An additional amount of stock-based compensation expense of \$152,962 was recognized in exploration and evaluation expenditures for the year ended December 31, 2019 (December 31, 2018: \$177,653; and December 31, 2017: \$80,770) (Note 5). An expense of \$80,000 was charged to wages and salaries relating to the award of DSUs during the year ended December 31, 2019 (December 31, 2018: \$nil; and December 31, 2017: \$nil).

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

d) Equity remuneration (continued)

i) 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. All Options granted have a five-year expiry from the date of grant. Vesting of Options is determined by the Board at the time of grant. As at December 31, 2019, 1,691,666 Options have vested (December 31, 2018: 1,166,583).

Subject to discretion of the Board and normal course regulatory approvals, Contact Shares are issued from treasury in settlement of Options exercised; otherwise the value of such Contact Shares may be payable in cash

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
Outstanding as at December 31, 2017	3,583,000	0.97
Granted	4,615,000	0.39
Outstanding as at December 31, 2018	8,198,000	0.64
Granted	1,670,000	0.275
Forfeited or cancelled	(3,473,000)	0.96
Outstanding as at December 31, 2019	6,395,000	0.37

On March 15, 2019, 80,000 Options originally awarded on April 17, 2018 to a consultant to the Company were forfeited further to the termination of the related services agreement, with the reversal of \$10,067 previously expensed.

On July 15, 2019, 10,000 Options originally awarded on March 27, 2018 to a contractor to the Company were forfeited further to the termination of the related services agreement, with the reversal of \$1,520 previously expensed.

On September 23, 2019, 150,000 Options originally awarded on April 17, 2018 to a consultant to the Company were forfeited further to the termination of the related services agreement, with the reversal of \$25,248 previously expensed.

On July 8, 2019, the Company and certain officers and directors of the Company agreed to cancel an aggregate of 3,233,000 Options originally awarded on June 13, 2017. An associated amount of \$215,499 was recognized as an expense.

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.

The weighted average fair value of Options granted during the year ended December 31, 2019, determined using Black-Scholes was \$0.15 (weighted average fair value to date: \$0.37) per Option. The remaining average contractual life of Options outstanding is 3.49 years.

For the purposes of estimating the fair value of Options awarded in 2019, 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 64%-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.

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

d) Equity remuneration (continued)

i) Stock options (continued)

The Company has awarded Options to directors, officers and other personnel as follows:

Grant Date	Number of Options	Exercise Price	Vesting
September 11, 2017	150,000	\$ 0.75	vesting in thirds over a period of three years
November 24, 2017	200,000	\$ 0.58	vesting in thirds over a period of three years
March 27, 2018	3,975,000	\$ 0.39	vesting in thirds over a period of three years
April 17, 2018	250,000	\$ 0.415	vesting in thirds over a period of three years
May 28, 2018	150,000	\$ 0.295	vesting in thirds over a period of three years
April 3, 2019	1,670,000	\$ 0.275	vesting in thirds over a period of three years

As at December 31, 2019, 1,691,666 Options have vested (December 31, 2018: 1,166,583).

ii) Deferred Share Units

DSUs granted under the Contact Gold Deferred Share Unit Plan to Directors of the Company, have no expiration date and are redeemable upon termination of service. Transactions relating to DSUs are summarised below:

Outstanding as at December 31, 2018	-
Granted	402,263
Exercised	-
Outstanding as at December 31, 2019	402,263

During the year ended December 31, 2019, an amount of \$80,000 was recognized to the value of share capital relating to the award of these DSUs (December 31, 2018: \$nil).

iii) 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
Granted	-
Vested	33,333
Outstanding at December 31, 2018	66,667
Granted	-
Vested	33,333
Outstanding at December 31, 2019	33,334

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 (gain) and comprehensive loss over the vesting period. An amount of \$33,333 was charged to the consolidated statement of loss and comprehensive loss as a component of exploration and evaluation during the year ended December 31, 2019 (2018: \$34,722; and 2017: \$nil). There has been no impact to cash flows from the Restricted Shares.

8. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

e) Gain or loss per share

The calculation of basic and diluted gain or loss per Contact Share for year ended December 31, 2019 was based on the loss attributable to common shareholders of \$9,374,126 (December 31, 2018: 11,855,092; and December 31, 2017: 774,327), adjusted for the value of the Contact Preferred Share dividends payable for the year ended December 31, 2019 of \$995,928 (2018: \$1,187,489; and 2017: \$592,287), and a weighted average number of common shares outstanding of 72,811,303 (2018: 50,572,328; and 2017: 32,278,496), including the Restricted Shares in each respective period.

Diluted gain or loss per share did not include the effect of 6,395,000 Options (December 31, 2018: 8,198,000) as they are anti-dilutive.

9. TAX

The effective income tax rate differs from the statutory rate for the following reasons in the years ended December 31, 2019, 2018, and 2017:

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Loss before taxes	\$ (9,374,126)	\$ (11,855,092)	\$ (774,327)
Statutory Tax Rate	21.00%	21.00%	35.00%
Expected tax recovery	(1,968,566)	(2,489,570)	(271,014)
Permanent differences	498,761	770,056	(1,784,056)
Changes in tax rates	-	-	763,252
Difference in tax rates between Canada and US	(275)	(198)	42,433
Expired tax attributes	-	-	62,095
Other	(42,980)	91,473	-
Valuation allowance	1,443,988	1,628,238	1,187,290
Income tax expense (recovery)	\$ (69,072)	\$ -	\$ -

On June 7, 2017, Contact Gold Corp. migrated from Canada to the US. The applicable statutory rate for 2019 is the United States federal rate of 21% (2018 – 21% and 2017- 35%). The applicable statutory rate for 2017 was the Canadian rate of 26%. The Company may also be subject to NNPT, currently calculated at a rate of 5% once a mineral property asset reaches production.

Effective January 1, 2018, the Canadian statutory tax rate increased to 27% due to a British Columbia legislative change.

The U.S. Tax Cuts and Jobs Act (the "Act") was enacted on December 22, 2017. The new legislation made significant changes to the U.S. federal income tax laws including, among other changes, a federal corporate tax rate reduction from 35% to 21% for tax years beginning after December 31, 2017, repeal of the corporate Alternative Minimum Tax system, 80% limitation on non-operating losses arising after December 31, 2017, and immediate expensing of certain types of business assets placed in service after September 27, 2017. Since the Company has a December 31 fiscal year end, the US federal statutory rate decreased to 21% for the US entity during the 2018 fiscal year and 21% thereafter.

9. TAX (continued)

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

NNPT arises on production, generating a deduction at such time for federal income tax purposes. Deferred tax assets (liabilities) have been recognized with respect to the NNPT as follows:

	at December 31, 2019	at December 31, 2018
Contact Gold Properties	\$ (1,918,202)	\$ (2,067,366)
Other	-	-
Net deferred tax liabilities	\$ (1,918,202)	\$ (2,067,366)

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

	at December 31, 2019	at December 31, 2018
Contact Gold Properties	\$ 1,413,422	\$ 1,170,674
Tax losses	2,323,693	1,591,339
Other	649,229	452,953
DTA	\$ 4,386,344	\$ 3,214,966

Because the Company has recognized a full valuation allowance on net deferred tax assets arising on federal income tax, the Act has minimal impact on the Company's provision for income taxes.

- b) As at December 31, 2019, the Company has Canadian non-capital tax loss carryforwards of approximately \$162,308 (December 31, 2018: \$274,493), and US non-capital tax loss carryforwards of approximately \$11,404,737 (USD 8,780,980) (December 31, 2018: \$7,224,885 (USD 5,296,060)).

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

2037	\$ 162,308
	\$ 162,308

A change in control may have occurred on June 7, 2017, the date on which the Transactions closed, which resulted in an acquisition of control of Carlin under of the Income Tax Act in Canada. Therefore, the Company's ability to use its losses in Canada may be limited.

The Company's unrecognized US non-capital losses have the following expiry dates, relating to non-capital losses incurred prior to 2018:

2037	\$ 1,872,483 (USD 1,441,702)
	\$ 1,872,483 (USD 1,441,702)

The US non-capital losses incurred in 2018 onwards can be carried forward indefinitely, but the use of these losses is limited to 80% of taxable income.

CONTACT GOLD CORP.
Notes to the Consolidated Financial Statements
for the years ended December 31, 2019, 2018 and 2017
(Expressed in Canadian dollars)

10. RELATED PARTIES

Contact Gold's related parties include (i) its subsidiaries; and (ii) Waterton Nevada as a reflection of its approximate 37% ownership interest in the Company at December 31, 2019, its preferred shareholding and the right Waterton Nevada holds to put forward two nominees to the Board.

Waterton Nevada holds a right of first offer, a right of first refusal, and other rights over the Contact Properties then acquired.

During the year ended December 31, 2019, in satisfaction of an obligation under the Securities Exchange Agreement, the Company provided notice to Waterton Nevada of its intent to abandon certain mineral property claims, including those that comprise Dry Hills and Rock Horse; in response, Waterton Nevada notified the Company of its intent to exercise its right to take assignment of the claims for nominal value.

Pursuant to the GC&SR Disposal, 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 during the year ended December 31, 2018 (Note 5(e)). Total cash consideration received of \$639,959 included an amount of \$79,008 as reimbursement of Claims Maintenance fees.

Options have previously been 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.

Waterton Nevada also purchased 3,603,020 Contact Shares in the Private Placement (Note 8(b)(i)), and 8,448,000 Contact Shares in the Prospectus Offering (Note 8(b)(ii)). An additional 750,629 Contact Shares were issued to Waterton Nevada pursuant to the conversion of the Private Placement Rights on May 22, 2019 (Note 8(b)(iii)).

An amount of \$60,000 (2018: \$60,000; and 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; \$60,000 is payable at December 31, 2019 (December 31, 2018: \$45,000 and 2017: \$13,003). Accordingly, Cairn is a related party. 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.

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

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

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Canada	\$ 4,869,987	\$ 5,246,902	\$ (3,519,354)
United States	4,504,139	6,608,190	4,293,681
	\$ 9,374,126	\$ 11,855,092	\$ 774,327

Significant non-cash items, including accretion expense on the Contact Preferred Shares of \$2,218,595 for the year ended December 31, 2019 (2018: \$1,842,900 and 2017: \$899,655) is reflected in the net loss attributable to Canada. The net loss attributable to Canada for the year ended December 31, 2019 also includes a non-cash loss on the Embedded Derivatives of \$48,635 (2018: gain of \$461,261; and 2017: gain of \$5,799,607), and a non-cash foreign exchange gain of \$608,050 (December 31, 2018: loss of \$542,343; and December 31, 2017: gain of \$618,788).

CONTACT GOLD CORP.**Notes to the Consolidated Financial Statements
for the years ended December 31, 2019, 2018 and 2017
(Expressed in Canadian dollars)****12. SUPPLEMENTAL CASH FLOW INFORMATION**

Non-cash financing and investing transactions:

	Year ended December 31, 2019	Year ended December 31, 2018	Year ended December 31, 2017
Non-cash financing and investing transactions, issuance of:			
Common Shares pursuant to Clover Acquisition	\$ -	\$ -	\$ 18,550,000
Contact Shares pursuant to acquisition of mineral properties	400,000	112,500	84,375
Contact Preferred Shares	-	-	14,987,020
	\$ 400,000	\$ 112,500	\$ 33,621,395

13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

2019	First	Second	Third	Fourth	Year
Revenues for the period	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss for the period	1,777,295	3,664,724	2,159,347	1,772,760	9,374,126
Less: Dividends payable	237,908	229,954	304,678	223,388	995,928
Weighted average number of Shares outstanding	52,453,308	69,873,460	83,971,973	84,471,973	72,811,303
Net loss per share for the period	0.04	0.06	0.03	0.02	0.14
2018	First	Second	Third	Fourth	Year
Revenues for the period	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss for the period	1,248,596	2,844,511	3,180,414	4,581,571	11,855,092
Less: Dividends payable	281,158	291,869	251,897	362,565	1,187,489
Weighted average number of Shares outstanding	50,446,986	50,596,986	50,596,986	50,596,986	50,572,328
Net loss per share for the period	0.03	0.06	0.07	0.10	0.26
2017	First	Second	Third	Fourth	Year
Revenues for the period	\$ -	\$ -	\$ -	\$ -	\$ -
Net loss (gain) for the period	119,023	(1,688,626)	164,502	2,179,428	774,327
Less: Dividends payable	-	68,076	259,267	264,944	592,287
Weighted average number of Shares outstanding	10,315,000	33,545,000	47,514,049	50,346,986	32,278,496
Net loss (gain) per share for the period	0.01	(0.05)	0.01	0.05	0.04

14. MANAGEMENT OF CAPITAL AND FINANCIAL RISKS

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's current capital consists of equity funding raised through issuances of common shares, preferred shares and a deficit incurred through operations.

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 manages its capital structure in order to meet short term business requirements, after taking into account cash flows from operations, expected capital expenditures and Contact Gold's holdings of cash; and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To facilitate this, management prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. On an ongoing basis, management evaluates and adjusts its planned level of activities, including planned exploration, development, permitting activities, and committed administrative costs, to ensure that adequate levels of working capital are maintained. The Company believes that this approach is reasonable given its relative size and stage.

There are no known restrictions on the ability of our affiliates to transfer or return funds amongst the group, nor are there any externally imposed capital requirements.

14. MANAGEMENT OF CAPITAL AND FINANCIAL RISKS (continued)

There were no changes in the Company's approach to capital management during the year ended December 31, 2019.

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, payables 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).

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

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's financial liabilities of payables and accrued liabilities are generally payable within a 90-day period. Although non-current, the Company has exposure to significant obligations relating to the terms and various covenants in and to the Contact Preferred Shares.

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. Accordingly, Contact Gold is dependent on external financing, including the proceeds of future equity issuances or debt financing, to fund its activities. Significant disruptions to capital market conditions should be expected to increase the risk that the Company can not finance its business.

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 (in comparative periods) the Bonding Deposit, are with the Canadian and United States government, respectively. As at December 31, 2019, the balance of cash and cash equivalents held on deposit was \$844,169 (December 31, 2018: 545,164).

The Company has not experienced any losses in such amounts and believes the exposure to significant risks on its cash and cash equivalents in bank accounts is relatively limited.

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.

Fair Value Estimation

Except for the values of the Contact Preferred Shares (Note 7), and other non-current liabilities (Note 5(d)), the carrying value of the Company's financial assets and liabilities approximates their estimated fair value due to their short-term nature.

14. MANAGEMENT OF CAPITAL AND FINANCIAL RISKS (continued)

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 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 \$1,053 increase or decrease respectively, in the Company's cash balance at December 31, 2019. The Company has not entered into any derivative contracts to manage foreign exchange risk at this time.

15. SUBSEQUENT EVENTS

a) Stock-based compensation

i. Award of DSUs

The Company awarded 216,216 DSUs to certain directors on January 15, 2020 with an aggregate fair value of \$40,000. DSUs granted under the Contact Gold Deferred Share Unit Plan, have no expiration date and are redeemable upon termination of service.

ii. Award of RSUs

The Company awarded 239,220 RSUs to certain employees and officers of the Company on January 16, 2020. The RSUs vest in third over a period of three years. The RSUs have an aggregate fair value of \$44,254, and each has an expiry date of December 31, 2023.

iii. Award of Options

On January 16, 2020, the Company granted 2,125,000 Options, to directors, offices and other Company personnel. The Options have an exercise price of C\$0.19. Options vest in thirds over three years and expire after 5 years.

b) Receipt of Cobb Creek reimbursement

The Company received payment of the reimbursement amount due from Fremont on January 22, 2020.

c) Financing

On March 27, 2020, the Company announced a non-brokered private placement of up to \$750,000 (the "2020 Private Placement"). Under the Private Placement, up to 7,500,000 units of Company ("Units") are issuable at a price of C\$0.10 per Unit. Each Unit consists of one Contact Share and one Contact Share purchase warrant ("Private Placement Warrant"). Each Private Placement Warrant entitles the holder to acquire one Contact Share at an exercise price of \$0.15 for a period of 2 years (the "Expiry Date").

In the event that at any time between four months and one day following the closing date and the Expiry Date, the Contact Shares trade on the TSXV at a closing price which is equal to or greater than \$0.30 for a period of ten consecutive trading days, the Company may accelerate the expiry date of the Warrants by giving notice to the holders thereof and in such case the Warrants will expire on the 30th day after the date such notice is provided.

Closing of the 2020 Private Placement is anticipated to occur in April 2020, although there can be no assurance that it will be completed as proposed, or at all.