TITAN MINING CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019

(Unaudited)

TITAN MINING CORPORATION
Condensed Consolidated Interim Statement of Financial Position
(Expressed in thousands of US dollars - Unaudited)

	Note		June 30, 2019		December 31, 2018
Assets					
Current assets					
Cash and cash equivalents		$	552	$	2,290
Trade and other receivables	4		993		1,123
Inventories	5		1,945		2,702
Other current assets			554		989
			4,044		7,104
Non-current assets					
Mineral properties, plant and equipment	6		69,970		64,254
Right-of-use assets	7a		1,054		-
Restricted cash			1,736		1,732
Other assets			-		111
Total assets		$	76,804	$	73,201
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities		$	4,841	$	7,956
Lease liabilities	7b		738		-
Debt	8		292		4,241
Deferred rental contribution	3		-		436
Warrant derivative liability	9a		-		1,099
Acquisition obligations			1,025		1,025
			6,896		14,757
Non-current liabilities					
Loan from related party	9a		18,244		14,809
Lease liabilities	7b		233		-
Debt	8		10,000		721
Other payables	9c		191		367
Deferred rental contribution	3		-		916
Reclamation and remediation provision			16,271		14,392
Total liabilities			51,835		45,962
Shareholders' equity					
Equity attributable to shareholders of the Company					
Share capital			52,778		51,859
Reserves			4,294		2,335
Deficit			(32,103)		(26,955)
Total equity			24,969		27,239
Total liabilities and shareholders' equity		$	76,804	$	73,201

Nature of operations and going concerns (Note 1)

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

TITAN MINING CORPORATION
Condensed Consolidated Interim Statement of Loss and Comprehensive Loss
(Expressed in thousands of US dollars - Unaudited)

	Note	Three months ended June 30, 2019	Three months ended June 30, 2018	Six months ended June 30, 2019	Six months ended June 30, 2018
Revenue					
Provisional pricing adjustment		$ (1,652)	$ (909)	$ 1,145	$ (909)
Other operating expenses					
General and administration expenses		1,213	1,435	2,286	2,667
Exploration and evaluation expenses		205	832	2,258	1,195
		1,418	2,267	4,544	3,862
Other expenses (income)					
Interest and other finance expenses		686	178	1,458	178
Accretion expense		91	97	188	186
Gain on derivative liability	8a,9a	(110)	-	(181)	-
Loss on loan extinguishment	8a	1,702	-	1,702	-
Interest income		(6)	(27)	(16)	(98)
Foreign exchange income		(22)	(2)	(50)	(32)
		2,341	246	3,101	234
Net loss for the period		**5,411**	**3,422**	**6,500**	**5,005**
Other comprehensive loss					
Items that may be reclassified to profit or loss					
Unrealized loss on translation to reporting currency		35	20	98	430
Total comprehensive loss for the period		**$ 5,446**	**$ 3,442**	**$ 6,598**	**$ 5,435**
Basic and diluted loss per share (in US $)		**$ 0.05**	**$ 0.03**	**$ 0.06**	**$ 0.05**
Weighted average shares outstanding (in ‘000)		**102,498**	**101,971**	**102,236**	**101,971**

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

TITAN MINING CORPORATION

Condensed Consolidated Interim Statement of Changes in Equity

(Expressed in thousands of US dollars - Unaudited)

		Share capital		Reserves				
	Note	Number ('000s)	Amount	Share options and warrants	Currency translation adjustment	Total	Deficit	Total equity
Balance, January 1, 2018		101,971	$ 51,834	$ 956	$ (211)	$ 745	$ (11,098)	$ 41,481
Refund of share issuance costs		-	25	-	-	-	-	25
Share-based compensation		-	-	711	-	711	-	711
Total comprehensive loss for the period		-	-	-	(430)	(430)	(5,005)	(5,435)
Balance, June 30, 2018		101,971	$ 51,859	$ 1,667	$ (641)	$ 1,026	$ (16,103)	$ 36,782
Balance, January 1, 2019, as previously reported		101,971	$ 51,859	$ 2,741	$ (406)	$ 2,335	$ (26,955)	$ 27,239
Impact of change in accounting policy	3	-	-	-	-	-	1,352	1,352
Adjusted balance, January 1, 2019		101,971	$ 51,859	$ 2,741	$ (406)	$ 2,335	$ (25,603)	$ 28,591
Shares issued as borrowing costs	8a	3,000	919	-	-	-	-	919
Issue of share purchase warrants	8a,9a	-	-	1,521	-	1,521	-	1,521
Share-based compensation		-	-	536	-	536	-	536
Total comprehensive loss for the period		-	-	-	(98)	(98)	(6,500)	(6,598)
Balance, June 30, 2019		104,971	$ 52,778	$ 4,798	$ (504)	$ 4,294	$ (32,103)	$ 24,969

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

TITAN MINING CORPORATION
Condensed Consolidated Interim Statement of Cash Flows
(Expressed in thousands of US dollars - Unaudited)

	Note	Six months ended June 30, 2019	2018
Operating activities			
Loss for the period		$ (6,500)	$ (5,005)
Interest and borrowing expense accruals		1,083	166
Amortization of borrowing and transaction costs		304	-
Share-based compensation		489	711
Accretion		188	186
Interest expense on lease liabilities	7c	63	-
Gain on derivative liability		(181)	-
Loss on loan extinguishment		1,702	-
Depreciation of right-of-use assets		89	-
Amortization of deferred rental contribution		-	(40)
Interest income accrual on restricted cash		(4)	-
Unrealized foreign exchange loss (income)		18	(3)
		(2,749)	(3,985)
Changes in non-cash working capital:			
Trade and other receivables		130	(883)
Inventories		1,055	(1,645)
Other current assets		754	(620)
Accounts payable and accrued liabilities		(2,035)	(679)
Net cash used in operating activities		(2,845)	(7,812)
Financing activities			
Proceeds from bank indebtedness	8a	6,000	-
Proceeds from related party loan	9a	2,400	-
Payment of lease liabilities	7d	(431)	-
Payment of interest, borrowing and transaction costs		(205)	(166)
Repayment of equipment loans		(25)	
Refund of share issuance costs		-	25
Deferred rental contributions received		-	346
Net cash provided by financing activities		7,739	205
Investing activities			
Additions to mineral properties, plant and equipment		(6,534)	(12,643)
Net cash used in investing activities		(6,534)	(12,643)
Effect of foreign exchange on cash and cash equivalents		(98)	(413)
Increase (decrease) in cash and cash equivalents		(1,738)	(20,663)
Cash and cash equivalents, beginning of period		2,290	25,168
Cash and cash equivalents, end of period		$ 552	$ 4,505

Supplementary cash flow information (note 13)

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

1. NATURE OF OPERATIONS AND GOING CONCERN

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

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

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

As at June 30, 2019, the Company had cash and cash equivalents of $552, negative working capital of $2,852, a net loss for the six months ended June 30, 2019 of $6,500, and a deficit of $32,103. During the six months ended June 30, 2019, the Company had cash outflows from operating activities of $2,845 and cash outflows from investing activities of $6,534. The Company received proceeds of $6,000 under its credit arrangement and loan proceeds of $2,400 from a company controlled by Titan's Executive Chairman. On May 31, 2019, the Company and the Lender amended the credit arrangement with the Bank of Nova Scotia whereby the Available Credit limit continues as $10,000 and the maturity date was extended to April 3, 2021. In addition, the financial covenant requirement on the Credit Facility was removed (note 8a). A $10,000 guarantee against the credit arrangement has been provided by a company controlled by Titan's Executive Chairman.

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

2. BASIS OF PRESENTATION

a) Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting using accounting policies consistent with the International Financial Reporting Standards issued by the International Accounting Standards Board ("IFRS"). Accordingly, they do not include all the information and notes to the consolidated financial statements required by IFRS for complete financial statements and should be read in conjunction with the Company's most recent audited consolidated financial statements.

On August 13, 2019, the Company's Board of Directors approved these condensed consolidated interim financial statements for issuance.

b) Basis of presentation

The accounting policies used in the preparation of these financial statements are the same as those applied in the Company's most recent audited consolidated annual financial statements for the year ended December 31, 2018, except as disclosed in note 3.

c) Use of judgments and estimates

In preparing these condensed interim financial statements, management has made judgments and estimates that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amounts incurred by the Company may differ from these values.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2018, except as disclosed in note 3.

3. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes described below, the accounting policies applied are consistent with those of the previous financial year.

Policy applicable from January 1, 2019

<u>IFRS 16 – Leases</u>

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

- The contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive right, then the asset is not identified.
- The Company has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- The Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purposed the asset is used is predetermined, the Company has the right to direct the use of the asset if either:
    - The Company has the right to operate the asset; or
    - The Company designed the asset in a way that predetermines how and for what purpose it will be used.

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

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

The Company recognizes a right-to-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-to-use asset or the end of the lease term. The estimated useful life of the right-to-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

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

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

The lease liability is measured at amortized cost using the effective interest rate method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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

Impact of transition to IFRS 16

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

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

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

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

There were no leases classified as finance leases at transition.

On initial application, the Company recognized right-of-use assets of and lease obligations of $2,272. Deferred rental contribution of $1,352 was derecognized, with the cumulative effect recognized in retained earnings at

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

January 1, 2019. When measuring lease liabilities, the Company discounted the remaining lease payments using its incremental borrowing rate at January 1, 2019. The weighted-average rate applied was 9.9%.

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

Operating lease commitments at December 31, 2018	$	2,106
Recognized under new lease definition		432
	$	2,538
Discounted using the incremental borrowing rate at January 1, 2019		(266)
Lease liabilities recognized at January 1, 2019	$	2,272

4. TRADE AND OTHER RECEIVABLES

		June 30, 2019		December 31, 2018
Trade receivables	$	959	$	984
GST receivable		34		43
Other receivables		-		96
	$	993	$	1,123

5. INVENTORIES

		June 30, 2019		December 31, 2018
Ore in stockpiles	$	55	$	32
Concentrate stockpiles		-		905
Materials and supplies		1,890		1,765
	$	1,945	$	2,702

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

6. MINERAL PROPERTY, PLANT AND EQUIPMENT

	Mineral properties	Plant and equipment	Land	Construction in progress	Total
Cost					
As at January 1, 2018	$ 3,695	$ 24,985	$ 1,081	$ 4,537	$ 34,298
Additions	-	258	-	58,956	59,214
Transfers between categories	-	785	-	(785)	-
Transfer to production inventories	-	-	-	(937)	(937)
Transfer from materials and supplies inventories	-	311	-	-	311
Change in reclamation and remediation provision	-	(697)	-	-	(697)
Capitalized revenue	-	-	-	(23,653)	(23,653)
As at December 31, 2018	$ 3,695	$ 25,642	$ 1,081	$ 38,118	$ 68,536
Additions	-	2,245	-	18,668	20,913
Transfers between categories	-	963	-	(963)	-
Transfer from production inventories	-	-	-	882	882
Change in reclamation and remediation provision	-	1,692	-	-	1,692
Disposals	-	-	-	(1,385)	(1,385)
Capitalized revenue	-	-	-	(14,368)	(14,368)
As at June 30, 2019	$ 3,695	$ 30,542	$ 1,081	$ 40,952	$ 76,270
Accumulated depreciation					
As at January 1, 2018	-	1,176	-	-	1,176
Depreciation capitalized to construction in progress	127	2,979	-	-	3,106
As at December 31, 2018	$ 127	$ 4,155	$ -	$ -	$ 4,282
Depreciation capitalized to construction in progress	81	1,937	-	-	2,018
As at June 30, 2019	$ 208	$ 6,092	$ -	$ -	$ 6,300
Net book value at December 31, 2018	$ 3,568	$ 21,487	$ 1,081	$ 38,118	$ 64,254
Net book value at June 30, 2019	$ 3,487	$ 24,450	$ 1,081	$ 40,952	$ 69,970

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

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7. LEASES

a) Right-of-use assets

	Office space	Equipment	Total
As at January 1, 2019	$ 1,410	$ 862	$ 2,272
Additions	-	-	-
Changes to lease terms	(950)	-	(950)
Depreciation	(89)	(179)	(268)
As at June 30, 2019	$ 371	$ 683	$ 1,054

The Company shares office space with other companies related to it by virtue of certain directors and management in common (note 9b). During the six months ended June 30, 2019, there were changes to the amount of office space attributable to the Company as reflected in changes in lease terms in the table above.

b) Lease liabilities

	Office space	Equipment	Total
As at January 1, 2019	$ 1,410	$ 862	$ 2,272
Additions	-	-	-
Changes to lease terms	(950)	-	(950)
Interest accretion	23	40	63
Lease payments	(107)	(324)	(431)
Unrealized foreign exchange	17	-	17
As at June 30, 2019	$ 393	$ 578	$ 971
Current lease liabilities	$ 160	$ 578	$ 738
Non-Current lease liabilities	233	-	233
	$ 393	$ 578	$ 971

The maturity analysis of the Company's contractual undiscounted lease liabilities as at June 30, 2019 is as follows:

	< 1 year	1 to 3 years	> 3 years	Total
Lease liabilities	$ 775	$ 258	$ 6	$ 1,039

c) Amounts recognized in Statement of Loss

	Three months ended June 30, 2019	Six months ended June 30, 2019
Interest on lease liabilities	$ 18	$ 63
Variable lease payments	$ 58	$ 58
Expenses relating to short-term leases	$ -	$ 27

d) Amounts recognized in Statement of Cash Flows

	Three months ended June 30, 2019	Six months ended June 30, 2019
Payment of lease liabilities	$ 170	$ 431
Variable lease payments	$ 58	$ 58
Expenses relating to short-term leases	$ -	$ 27

8. DEBT

a) Bank indebtedness

On January 21, 2019, the Company and the Bank of Nova Scotia ("Lender") amended the $15,000 secured credit agreement (the "Credit Facility") whereby a maximum of $10,000 (the "Available Credit") was available to the Company on a revolving basis. Prior to March 31, 2019, the Lender was permitted to reduce the maximum amount available to $6,000, subject to the business and financial plan provided by the Company. The interest rate on the Available Credit is either LIBOR plus 4.25% or the Lender's base rate plus 3.25%, and the standby fee is 0.8% of the unadvanced portion of the Credit Facility. If the amount available is reduced to $6,000, the interest rate changes to LIBOR plus 2.25% or the Lender's base rate plus 1.25%, and the standby fee is 0.5625% of the unadvanced portion of the Credit Facility. A $6,000 guarantee was provided by a company controlled by Titan's Executive Chairman.

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

In connection with the amendment, a $10,000 guarantee has been provided by a company controlled by Titan's Executive Chairman (the "Guarantor"), replacing the original $6,000 guarantee. In consideration for the guarantee, the Company issued 3,000,000 common shares with a fair value of $979 and 3,000,000 share purchase warrants with each warrant exercisable for one common share at price of $0.50 per share for a period of five years from the date of issuance with a fair value of $543 at the guarantee effective date. Such common shares and share purchase warrants were issued on June 14, 2019. The fair market values on the issuance date were $919 and $493, respectively. The difference of $110 was recorded as a gain on derivative liability during the six months ended June 30, 2019.

As a result of the amendment, the Company extinguished the face value of the loan prior to the amendment and recorded the fair value of the new loan as at May 31, 2019. A $1,702 loss on the extinguishment of debt was recorded during the six-month period ended June 30, 2019.

The Available Credit was fully drawn at June 30, 2019.

b) Equipment loans

The Company financed the purchase of equipment with 36-month loans that bear interest at 5.95%. In March 2019, the Company returned two pieces of the financed equipment and used the proceeds to eliminate the outstanding balance of the equipment loans.

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

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9. RELATED PARTY TRANSACTIONS

a) Loan from related party

On November 30, 2018, the Company entered a credit agreement with a company controlled by Titan's Executive Chairman, to establish a $18,710 subordinate general security credit facility ("Loan"). On January 21, 2019, the Company issued 2,500,000 warrants to a company controlled by Titan's Executive Chairman pursuant to the credit agreement.

$2,400 was drawn on the Loan during the six months ended June 30, 2019 leaving $615 available as at June 30, 2019 (see note 14).

b) Management company

The Company shares office space, equipment, personnel and various administrative services with other companies related to it by virtue of certain directors and management in common. These related parties comprise Tethyan Resources Plc ("Tethyan") since February 1, 2019, Arizona Mining Inc. ("Arizona Mining") until August 10, 2018, NewCastle Gold Ltd. ("NewCastle") until December 22, 2017, and Armor Minerals Inc. These services have been provided through a management company ("Manco"), which is equally owned by the related companies.

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

Provisions of agreements governing certain shared leases required both NewCastle and Arizona Mining to make a payment to Manco upon each company's change of control to cover its share of the outstanding lease commitment. The NewCastle payment was redistributed to the remaining shareholders of Manco in the six months ended June 30, 2018.

	Three and Six months ended June 30,			
		2019		2018
Deferred rental contributions received from Newcastle	$	-	$	346

c) Key management personnel compensation

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

	Three months ended June 30,				Six months ended June 30,			
		2019		2018		2019		2018
Salaries and benefits	$	243	$	167	$	486	$	379
Share-based compensation		276		195		554		327
Directors' fees		50		31		99		180
	$	569	$	393	$	1,139	$	886

	As at June 30,		As at December 31,	
		2019		2018
Salaries and benefits payable	$	76	$	59
Termination benefits payable – current		254		220
Termination benefits payable – non-current		191		367
	$	521	$	646

10. CONTINGENCIES

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

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

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

   On or about February 21, 2018, Star Mountain filed a voluntary petition commencing a Chapter 11 bankruptcy in the United States Bankruptcy Court for the District of Arizona. The filing of the bankruptcy case stayed the SGS and Aviano litigation against Star Mountain. The bankruptcy court has confirmed a Chapter 11 plan of liquidation in the bankruptcy proceedings, which went effective on July 8, 2019. The Chapter 11 plan provides for the appointment of a Plan Trustee to liquidate all of the remaining assets owned by Star Mountain, including causes of action held by Star Mountain. The Chapter 11 plan indicates that the Plan Trustee will investigate, and may pursue, potential fraudulent conveyance claims against the Company. As of the date hereof, the Plan Trustee has not made demand on the Company with respect to any alleged claim, and has not commenced any litigation against the Company. The Company believes that any alleged claim of fraudulent conveyance by the Plan Trustee (if ever asserted) would be wholly without merit and will defend against any action by the Plan Trustee if and when commenced.

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

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

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

On January 11, 2019, the Company entered into a settlement agreement with Dumas whereby the Company must pay Dumas a settlement sum in instalments in 2019. The settlement sum bears interest at the base rate for Canadian dollar commercial loans plus 2%. On March 26, 2019, there was an amendment to the settlement agreement which set out a revised payment schedule and increased the interest rate to 12%. Furthermore, should the Company enter into new or amended financing facilities, a lump sum of 20% of the then outstanding balance shall be paid immediately, and that amount shall be deducted from the last payments on the revised payment schedule, with all other payments to be made as scheduled until the current outstanding balance is paid in full.

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

11. FINANCIAL INSTRUMENTS

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

	June 30, 2019		December 31, 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Lease liabilities	$ 971	$ 1,081	$ -	$ -
Bank indebtedness	$ 10,241	$ 10,241	$ 3,912	$ 4,087
Equipment loans	$ 51	$ 29	$ 1,050	$ 1,050
Loan from related party	$ 18,244	$ 18,842	$ 14,809	$ 15,715

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

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

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

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

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

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

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

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

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

12. SEGMENTED INFORMATION

The Company operates one reportable segment, the Empire State Mine. The Company's non-current assets located in the United States total $72,147 and those located in Canada total $613.

13. SUPPLEMENTARY CASH FLOW INFORMATION

	Six months ended June 30, 2019	Six months ended June 30, 2018
Non-cash investing and financing activities		
Change in accounts payable and accrued liabilities with respect to construction in progress	$ 1,837	$ 3,086
Change in accounts payable and accrued liabilities with respect to inventories	$ 298	$ -
Equipment purchases financed with debt	$ 341	$ -
Common shares and warrants issued as borrowing costs	$ 1,412	$ -
Proceeds on sale of equipment used to repay debt	$ 1,318	$ -
Proceeds on sale of equipment used to reduce accounts payable	$ 37	$ -
Change in reclamation and remediation asset	$ 1,692	$ 783
Non-cash additions to construction in progress	$ 226	$ -

14. SUBSEQUENT EVENT

Subsequent to June 30, 2019, the Company withdrew the remaining $615 on the Loan from the related party (Note 9a) and received an additional $1,000 from the related party.