

# **Winston Gold Corp.**

(An Exploration Stage Company)

Consolidated Financial Statements  
(Expressed in Canadian Dollars)

**For the Years ended December 31, 2020 and 2019**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
Winston Gold Corp.

### *Opinion*

We have audited the accompanying consolidated financial statements of Winston Gold Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity (deficiency), and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company is in the exploration stage and has not generated revenue from operations. During the year ended December 31, 2020, the Company incurred a net loss of \$13,157,529 and as of that date, the Company had a deficit of \$40,645,592, working capital deficiency of \$376,550 and negative cash flow from operations of \$10,572,461. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

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

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



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

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

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

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

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

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

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


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

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

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

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

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

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 26, 2021

**Winston Gold Corp.**  
(An Exploration Stage Company)  
**Consolidated Statements of Financial Position**  
(Expressed in Canadian Dollars)

<b>As at</b>	<b>December 31, 2020</b>	December 31, 2019
<b>Assets</b>		
Current assets		
Cash	\$ 1,694,849	\$ 131,135
Marketable securities (Note 6)	-	210,278
Accounts receivable (Note 21)	94,782	-
Prepaid expenses and deposits (Note 7)	79,026	21,988
<b>Total current assets</b>	<b>1,868,657</b>	<b>363,401</b>
Non-current assets		
Equipment (Note 8)	1,155,352	651,479
Right-of-use asset (Note 9)	891,974	-
Reclamation bonds (Note 13)	56,572	37,769
<b>Total non-current assets</b>	<b>2,103,898</b>	<b>689,248</b>
<b>Total Assets</b>	<b>\$ 3,972,555</b>	<b>\$ 1,052,649</b>
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 438,937	\$ 454,740
Debenture interest payable (Note 11)	11,011	13,454
Embedded derivative liability (Note 11)	-	109,447
Debentures payable (Note 11)	1,296,436	1,560,618
Lease liability (Note 9)	175,966	-
Due to directors (Note 10)	322,857	183,641
<b>Total current liabilities</b>	<b>2,245,207</b>	<b>2,321,900</b>
Non-current liabilities		
Due to director, long-term (Note 12)	381,960	389,640
Lease liability (Note 9)	766,530	-
Restoration liabilities (Note 13)	56,572	37,769
<b>Total non-current liabilities</b>	<b>1,205,062</b>	<b>427,409</b>
<b>Total Liabilities</b>	<b>3,450,269</b>	<b>2,749,309</b>
<b>Shareholders' Equity (Deficiency)</b>		
Share capital (Note 16)	29,445,331	21,747,152
Share purchase warrants (Note 18)	8,147,576	2,562,992
Share subscriptions received (Note 15)	670,400	-
Contributed surplus (Note 19)	3,019,784	1,489,906
Accumulated other comprehensive (loss)	(115,213)	(8,647)
Deficit	(40,645,592)	(27,488,063)
<b>Total Shareholders' Equity (Deficiency)</b>	<b>522,286</b>	<b>(1,696,660)</b>
<b>Total Liabilities and Shareholders' Equity (Deficiency)</b>	<b>\$ 3,972,555</b>	<b>\$ 1,052,649</b>

*Nature of operations and going concern (Note 1)*  
*Subsequent events (Note 26)*

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

Approved by The Board of Directors on April 26, 2021

*"Murray Nye"*  
\_\_\_\_\_  
Director

*"Max Polinsky"*  
\_\_\_\_\_  
Director

**Winston Gold Corp.****(An Exploration Stage Company)****Consolidated Statements of Loss and Comprehensive Loss****For the years ended December 31, 2020 and 2019**

(Expressed in Canadian Dollars)

	Years ended December 31,	
	2020	2019
<b>Expenses</b>		
Exploration and evaluation expenses (Notes 20, 21)	\$ 8,194,846	\$ 1,989,196
Office and administrative costs (Note 21)	468,193	228,450
Management fees (Note 21)	525,000	240,000
Professional and consulting fees	1,631,634	538,838
Travel	102,012	56,923
Depreciation expense (Note 8)	145,714	44,965
Interest and accretion expense (Note 11)	174,345	353,233
Shareholder loan interest (Note 21)	52,428	-
Debenture bonus expense (Note 11)	154,391	119,266
Share based payments (Notes 17, 21)	1,625,727	157,490
Loss (gain) on embedded derivative (Note 11)	(109,447)	101,140
Gain on disposal of subsidiary (Note 14)	-	(94,899)
Unrealized (gain) loss on revaluation of securities (Note 6)	113,415	(115,379)
Gain on disposal of securities (Note 6)	(84,526)	-
Foreign exchange (gain) loss	163,797	(56,643)
Loss for the year	(13,157,529)	(3,562,580)
Foreign exchange on translation of subsidiaries	(106,566)	(14,420)
<b>Loss and comprehensive loss for the year</b>	<b>\$ (13,264,095)</b>	<b>\$ (3,577,000)</b>
<b>Basic and diluted loss per share</b>	<b>\$(0.056)</b>	<b>\$(0.027)</b>
<b>Weighted average number of common shares outstanding</b>		
<b>Basic and diluted</b>	<b>237,829,919</b>	<b>134,346,896</b>

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

**Winston Gold Corp.**

(An Exploration Stage Company)

**Statements of Changes in Shareholders' Equity (Deficiency)**

**As at December 31, 2020**

(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Contributed Surplus	Share Purchase Warrants	Accumulated Other Comprehensive Income	Share Subscriptions Received	Deficit	Total
	(Note 16)	(Note 16)	(Note 19)	(Note 18)		(Note 15)		
<b>Balance, January 1, 2019</b>	<b>104,546,123</b>	<b>\$ 19,802,404</b>	<b>\$ 1,333,097</b>	<b>\$ 681,699</b>	<b>\$ 5,773</b>	<b>678,158</b>	<b>(23,925,483)</b>	<b>(1,424,352)</b>
Shares issued for cash	68,667,250	3,861,530	-	-	-	(678,158)	-	3,183,372
Allocated to warrants	-	(1,855,184)	-	1,855,184	-	-	-	-
Shares issued for stock option exercise	20,000	1,681	(681)	-	-	-	-	1,000
Share issue costs	-	(63,279)	-	26,109	-	-	-	(37,170)
Share based payments	-	-	157,490	-	-	-	-	157,490
Loss and comprehensive loss for the year	-	-	-	-	(14,420)	-	(3,562,580)	(3,577,000)
<b>Balance, December 31, 2019</b>	<b>173,233,373</b>	<b>21,747,152</b>	<b>1,489,906</b>	<b>2,562,992</b>	<b>(8,647)</b>	<b>-</b>	<b>(27,488,063)</b>	<b>(1,696,660)</b>
Shares issued for cash	152,852,621	12,018,493	-	-	-	-	-	12,018,493
Shares issued for warrant exercise	10,598,000	1,321,527	-	(261,726)	-	-	-	1,059,801
Shares issued for stock option exercise	2,680,000	231,849	(95,849)	-	-	-	-	136,000
Broker shares issued	572,000	40,040	-	-	-	-	-	40,040
Share issue costs	-	(119,457)	-	52,037	-	-	-	(67,420)
Allocated to warrants	-	(5,794,273)	-	5,794,273	-	-	-	-
Share subscriptions received	-	-	-	-	-	670,400	-	670,400
Share-based payments	-	-	1,625,727	-	-	-	-	1,625,727
Loss and comprehensive loss for the year	-	-	-	-	(106,566)	-	(13,157,529)	(13,264,095)
<b>Balance, December 31, 2020</b>	<b>339,935,994</b>	<b>\$ 29,445,331</b>	<b>\$ 3,019,784</b>	<b>\$ 8,147,576</b>	<b>(115,213)</b>	<b>670,400</b>	<b>(40,645,592)</b>	<b>522,286</b>

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

**Winston Gold Corp.**  
**(An Exploration Stage Company)**  
**Consolidated Statements of Cash flows**  
**For the years ended December 31, 2020 and 2019**  
(Expressed in Canadian Dollars)

	Years ended December 31,	
	2020	2019
<b>Cash (used in) provided by:</b>		
<b>Operating Activities</b>		
Loss for the year	\$ (13,157,529)	\$ (3,562,580)
Items not affecting cash:		
Depreciation	145,714	44,965
Right of use asset amortization	188,924	-
Accrued interest expense	11,011	13,454
Interest expense	52,428	-
Accretion expense on debentures payable	23,522	202,074
Accretion on lease	134,249	-
Accrued management fees	505,000	240,000
Debenture bonus payment	154,391	119,266
Loss (gain) on embedded derivative	(109,447)	101,140
Foreign exchange	(44,254)	79,748
Unrealized loss (gain) on revaluation of marketable securities	113,415	(115,379)
Realized gain on sale of marketable securities	(84,526)	-
Share-based payments	1,625,727	157,490
Restoration liability	19,700	-
Gain on sale of subsidiary	-	(94,899)
Net changes in non-cash working capital items:		
Accounts payable and accrued liabilities	1,034	189,912
Accounts receivable	(94,782)	-
Prepaid expenses	(57,038)	(2,757)
<b>Net cash used in operating activities</b>	<b>(10,572,461)</b>	<b>(2,627,566)</b>
<b>Investing Activities</b>		
Reclamation bond	(19,700)	-
Sale of marketable securities	181,389	-
Purchase of equipment	(690,903)	(529,779)
<b>Net cash used in investing activities</b>	<b>(529,214)</b>	<b>(529,779)</b>
<b>Financing Activities</b>		
Proceeds from share issuances	12,018,493	3,183,372
Share issuance costs	(27,379)	(37,170)
Exercise of stock options	136,000	1,000
Exercise of warrants	1,059,800	-
Share subscriptions received in advance	670,400	-
Lease payments	(269,669)	-
Proceeds from director loans	554,092	220,818
Repayment of debentures	(413,819)	-
Interest payments	(13,454)	(151,160)
Proceeds from long-term director loan	-	389,640
Repayment of director loans	(964,006)	(367,570)
<b>Net cash provided by financing activities</b>	<b>12,750,458</b>	<b>3,238,930</b>
<b>Effect of foreign exchange on cash</b>	<b>(85,069)</b>	<b>(14,420)</b>
<b>Net change in cash</b>	<b>1,563,714</b>	<b>67,165</b>
<b>Cash, beginning of year</b>	<b>131,135</b>	<b>63,970</b>
<b>Cash, end of year</b>	<b>\$ 1,694,849</b>	<b>\$ 131,135</b>

**Change in liabilities from financing activities (Note 5)**

Non-Cash Transactions	\$	\$
Issuance of private placement warrants	5,794,273	1,855,184
Issuance of broker shares	40,040	-
Issuance of broker warrants	52,037	-
Share subscriptions applied to private placement	-	678,158
Relative fair value of warrants exercised	261,726	-
Reversal of contributed surplus on exercise of options	95,849	681
Right of use asset/lease liability	1,128,965	-
Equipment purchase in accounts payable	(13,579)	30,416

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



# Winston Gold Corp.

(An Exploration Stage Company)

## Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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### 1. NATURE OF OPERATIONS AND GOING CONCERN

Winston Gold Corp. (the "Company") was incorporated in the Province of Manitoba on January 31, 2013. The Company is listed on the Canadian Securities Exchange under the symbol WGC. The Company is in the process of exploring mining claims which are under lease and has not yet determined whether or not the leased properties will contain economically recoverable reserves.

The principal address of the Company is 919 Notre Dame Avenue, Suite 201, Winnipeg, Manitoba R3E 0M8.

The consolidated financial statements of the Company were approved by the Board of Directors on April 26, 2021.

#### Going Concern of Operations

While these financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis that presumes the realization of assets and discharge of liabilities in the normal course of business, there are material uncertainties related to adverse conditions and events that cast significant doubt on the Company's ability to continue as a going concern. The Company has incurred losses since its inception and the ability of the Company to continue as a going concern depends on its ability to raise adequate financing and to develop profitable operations.

The Company is in the exploration stage and has not generated revenue from operations. During the year ended December 31, 2020, the Company incurred a net loss of \$13,157,529 (December 31, 2019 - \$3,562,580), and as of that date, the Company had a deficit of \$40,645,592 (December 31, 2019 - \$27,488,063), working capital deficiency of \$376,550 (December 31, 2019 - deficiency of \$1,958,499) and negative cash flow from operations of \$10,572,461 (December 31, 2019 - negative \$2,627,566).

The Company's ability to continue as a going concern is dependent upon obtaining additional financing and eventually achieving profitable production and on being able to make payments required under the mining lease agreements and debenture agreements. The Company continues to evaluate various options in order to address its financing needs. There can be no assurance that the Company's financing activities will be successful or sufficient.

These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the going concern assumption not be appropriate. Such adjustments could be material.

### 2. BASIS OF PREPARATION

#### Statement of Compliance

These consolidated financial statements of the Company present the Company's financial results of operations and financial position under IFRS as at and for the year ended December 31, 2020.

These consolidated financial statements of the Company have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee.

A summary of the Company's significant account policies under IFRS are presented below. These policies have been consistently applied to all years presented.

## Winston Gold Corp.

(An Exploration Stage Company)

### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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## 2. BASIS OF PREPARATION (cont'd)

### Basis of Measurement and Presentation

The consolidated financial statements are presented in Canadian dollars which is also the Company's functional currency. The functional currency of the Company's US subsidiaries is the US dollar. The consolidated financial statements are prepared on the historical cost basis except for financial instruments measured at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

### Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its 100% owned subsidiaries Winston Gold Mining USA Corp. and Western States Gold Milling Co. Under the guidance of IFRS 10 *Consolidated Financial Statements*, control is established by having power over the acquiree, exposure or rights to variable returns from its involvement with the acquiree, and the ability to use its power over the acquiree to affect the amount of the acquirer's returns. Subsidiaries are fully consolidated from the date on which control is acquired by the Company. They are de-consolidated from the date that control by the Company ceases. On November 5, 2018 the former subsidiaries Goldridge Holdings Limited and Goldridge Holdings (USA) were de-consolidated (Note 20(d)).

All intercompany transactions and balances are eliminated on consolidation.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Significant Accounting Judgments and Estimates

The Company makes estimates, judgments and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual results may differ from these estimates and assumptions.

#### *Judgments*

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

i) Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

ii) Going Concern

The Company applies judgment in assessing whether material uncertainties exist that would cause doubt as to whether the Company could continue as a going concern.

## Winston Gold Corp.

(An Exploration Stage Company)

### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### Significant Accounting Judgments and Estimates (cont'd)

###### *Judgments (cont'd)*

###### iii) Deferred exploration expenses

The Company applies judgment in assessing whether material uncertainties exist that would determine whether the Company has reached a phase of development activity whereby its exploration expenditures could be classified as assets. As at December 31, 2020, management has determined the projects have not reached development stage.

###### *Estimates*

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive loss in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Estimates and judgements are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information regarding significant areas of estimation and uncertainty made in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are the following:

###### Valuation of right-of-use asset and lease liabilities

The application of IFRS 16 requires the Company to make judgments that affect the valuation of the right-of-use assets and the valuation of lease liabilities. These include assessing lease agreements to determine the contract term and interest rate used for discounting of future cash flows.

The lease term determined by the Company is comprised of the non-cancellable period of lease agreements, periods covered by an option to extend the lease if the Company is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the Company is reasonably certain not to exercise that option.

The present value of the lease payment is determined using a discount rate representing the rate of a commercial mortgage rate, observed in the period when the lease agreement commences or is modified.

###### Estimating useful life of equipment

Depreciation of equipment is charged so as to write down the value of those assets to their residual value over their respective estimated useful lives. Management is required to assess the useful economic lives and residual values of the assets such that depreciation is charged on a systematic basis to the current carrying amount. The useful lives are estimated having regard to such factors such as asset maintenance, rate of technical and commercial obsolescence, and asset usage. The useful lives of key assets are reviewed annually.

## Winston Gold Corp.

(An Exploration Stage Company)

### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### Significant Accounting Judgments and Estimates (cont'd)

###### Impairment

Judgment is involved in assessing whether there is any indication that an asset or cash generating unit may be impaired. This assessment is made based on the analysis of, amongst other factors, changes in the market or business environment, events that have transpired that have impacted the asset or cash generating unit, and information from internal reporting.

###### Share-based payments

Management uses the Black-Scholes Pricing Model for valuation of share based compensation and warrants, which requires the input of subjective assumptions including expected price volatility, interest rate and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's results and equity reserves.

###### Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the probability that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

###### Determination of functional currency

In accordance with IAS 21 *The Effects of Changes in Foreign Exchange Rates*, management determined that the functional currency of the Company is the Canadian dollar. Management also determined that the functional currency of Winston USA and Western States Gold Milling is the US dollar. Prior to the sale of Goldridge Holdings and its subsidiary, the Company determined that the functional currency of Goldridge is the Canadian dollar.

##### Financial instruments

###### Financial assets

On initial recognition, financial assets are recognized at fair value and are subsequently classified and measured at: (i) amortized cost; (ii) fair value through other comprehensive income ("FVOCI"); or (iii) fair value through profit or loss ("FVTPL"). The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at fair value net of transaction costs that are directly attributable to its acquisition except for financial assets at FVTPL where transaction costs are expensed. All financial assets not classified and measured at amortized cost or FVOCI are measured at FVTPL. On initial recognition of an equity instrument that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income (loss).

## Winston Gold Corp.

(An Exploration Stage Company)

### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### Financial instruments (cont'd)

###### Financial assets (cont'd)

The classification determines the method by which the financial assets are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Cash is classified as FVTPL. Reclamation bond is measured at amortized cost with subsequent impairments recognized in profit or loss.

###### Impairment

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in profit or loss for the period.

In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

###### Financial liabilities

Financial liabilities are designated as either: (i) fair value through profit or loss; or (ii) amortized cost. All financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities at FVTPL. The classification determines the method by which the financial liabilities are carried on the statement of financial position subsequent to inception and how changes in value are recorded. Accounts payable and accrued liabilities, shareholder loan, due to directors, debenture interest payable and debenture payable are classified as and carried on the statement of financial position at amortized cost. Embedded derivative liability is classified as FVTPL with subsequent changes in fair value recognized in profit or loss.

##### Restoration Liabilities

The Company recognizes a provision for restoration liabilities related to statutory, contractual or legal obligations associated with the retirement of mining claims in the year in which it is incurred. Initially, the restoration liability is recognized at the present value of management's best estimate of expenditures required to settle the obligation. The carrying amount of the related mining claim is increased by the same amount as the net present value of the restoration liability. Discount rates use a pre-tax rate that reflects the time value of money to calculate the net present value. The Company's estimates of such costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures and changes in the net present value. The restoration liabilities amount recorded by the Company represent the reclamation bonds held with the mining bureau.



## Winston Gold Corp.

(An Exploration Stage Company)

### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### Impairment (cont'd)

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

##### Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company assesses whether the contract involves the use of an identified asset, whether the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement exists, and if the Company has the right to direct the use of the asset. 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 on the basis of their relative standalone prices.

As a lessee, the Company recognizes a right-of-use asset and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any decommissioning and restoration costs, 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 lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- 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;
- exercise prices of purchase options if the Company is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

## **Winston Gold Corp.**

(An Exploration Stage Company)

### **Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)**

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **Leases (cont'd)**

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in the estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit or loss.

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit or loss on a straight-line basis over the lease term.

##### **Warrants Issued in Equity Financing Transactions**

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate mineral properties. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of share purchase warrants. Depending on the terms and conditions of each equity financing agreement, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the agreement.

For private placements of units consisting of common shares and warrants, the Company uses the relative fair value approach in determining the value assigned to the common shares and warrants, calculated in accordance with the Black Scholes option-pricing model.

The relative fair value of the warrant component of a unit is credited to share purchase warrants and the relative fair value of the common shares that were concurrently issued is credited to share capital. Warrants that are issued as payment for broker or agency fees are assigned a fair value based on the Black-Scholes option pricing mode, accounted for as share issue costs and credited to share purchase warrants.

When broker warrants expire, the fair value is debited to share purchase warrants and credited to contributed surplus. When warrants issued as a component of a unit expire, the relative fair value is debited to share purchase warrants and credited to share capital.

##### **Provisions**

A provision is recognized in the statements of financial position when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are measured by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. The Company has recorded no provisions at December 31, 2020 and 2019 other than restoration liabilities.



## **Winston Gold Corp.**

(An Exploration Stage Company)

### **Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)**

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#### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

##### **Exploration and Evaluation Expenditures**

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the acquisition date fair value of exploration and evaluation assets acquired in a business combination or an asset acquisition. Exploration and evaluation expenditures are expensed as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are expensed.

##### **Share-based Payments**

Pursuant to the Stock Option Plan effective October 31, 2016 and amended December 20, 2019, the Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to share capital.

In situations where equity instruments are issued to non-employees, the fair value of the stock options is measured at the fair value of the goods or services received. If some or all of the goods or services received by the entity as consideration cannot be reliably measured, they are measured at the fair value of the equity instrument granted.

##### **Segmental Reporting**

The Company presents and discloses segmental information based on information that is regularly reviewed and evaluated by the chief financial officer. The Company has determined that there was only one operating segment being the sector of exploration and evaluation of mineral resources.

##### **Asset Acquisition, Disposal / Business Combination**

In accordance with IFRS 3 - *Business Combinations*, a transaction is recorded as a business combination if the significant assets, liabilities, or activities are acquired constitute a business. A business is defined as an integrated set of activities and assets, capable of being conducted and managed for the purpose of providing a return, lower costs, or other economic benefits. Where there are no such integrated activities, the transaction is treated as an asset acquisition. The acquisition of Goldridge was recorded as an asset acquisition whereby the consideration paid for the net assets acquired was allocated to the fair value of the identifiable assets acquired and liabilities assumed. Accordingly, the disposal of Goldridge was recorded as an asset disposal in the statement of loss and comprehensive loss.

##### **Deferred Taxes**

Pursuant to the liability method, deferred taxes are recorded for temporary differences existing at the end of each reporting date between the tax base value of assets and liabilities and their carrying amount on the statement of financial position.

## **Winston Gold Corp.**

(An Exploration Stage Company)

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

**For the years ended December 31, 2020 and 2019**

(Expressed in Canadian Dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

#### **Deferred Taxes (cont'd)**

- Deferred tax assets and liabilities are measured at the expected tax rates for the year during which the asset will be realized or the liability settled, based on tax rates (and tax regulations) enacted or substantially enacted at year-end. They are reviewed at the end of each year, in line with any changes in applicable tax rates.
- Deferred tax assets are recognized for all deductible temporary differences, carry forward of tax losses and unused tax credits, insofar as it is probable that a taxable profit will be available, or when a current tax liability exists, to make use of those deductible temporary differences, tax loss carry forwards and unused tax credits, except where the deferred tax asset associated with the deductible temporary difference is generated by initial recognition of an asset or liability in a transaction which is not a business combination, and which, at the transaction date, does not impact earnings, tax income or loss.
- Current tax and deferred tax is charged or credited directly to equity if the tax relates to items that are credited or charged directly to equity.

#### **Embedded Derivatives**

Derivatives may be embedded in other financial instruments (the “host instrument”). Embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not clearly and closely related to those of the host instrument, the terms of the embedded derivative are the same as those of a stand-alone derivative, and the combined contract is not held for trading or designated at fair value. These embedded derivatives are measured at fair value with subsequent changes recognized in profit or loss.

#### **Foreign Currency Translation**

Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At the year-end date, monetary assets and monetary liabilities denominated in a foreign currency are translated into the functional currency at the year-end date exchange rate.

Non-monetary items measured at historical cost are translated using the historical exchange rate. Non-monetary items measured at fair value are translated using the exchange rates at the date when fair value was determined. These foreign currency adjustments are recognized in profit and loss.

On consolidation, the assets and liabilities of foreign operations are translated into Canadian dollars at the rate of exchange prevailing at the reporting date and their statements of loss and comprehensive loss are translated at the average exchange rates for the reporting period. The exchange differences arising on translation for consolidation are recognized in other comprehensive income or loss. On disposal of a foreign operation, the component of other comprehensive income or loss relating to that particular foreign operation is recognized in profit or loss.

## Winston Gold Corp.

(An Exploration Stage Company)

### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

#### 3. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

##### Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

#### 4. FUTURE ACCOUNTING PRONOUNCEMENTS

##### Standards issued or amended but not yet effective

The Company has not applied the following revised IFRS that has been issued but was not yet effective at December 31, 2020. This accounting standard is not currently expected to have a significant effect on the Company's accounting policies or financial statements.

- IAS 16, *Property, Plant and Equipment - Proceeds before Intended Use* (effective January 1, 2022). The amendment prohibits deducting from the cost of property, plant and equipment amounts received from selling items produced while preparing the asset for its intended use. Instead, a company will recognize such sale proceeds and related cost in profit or loss.

#### 5. CHANGE IN LIABILITIES FROM FINANCING ACTIVITIES

The following is a continuity of changes in liabilities arising from financing activities for the year ended December 31, 2020 and 2019:

##### For the year ended December 31, 2020

	January 1, 2020	Cash flows	Management fees & interest accrual <sup>1</sup>	Foreign exchange movements	Non-cash changes Debtore bonus rolled into principal	Amortization of deferred financing costs	December 31, 2020
	\$	\$	\$	\$	\$	\$	\$
Due to directors	183,641	(409,914)	557,428	(8,298)	-	-	322,857
LT director loan	389,640		-	(7,680)	-	-	381,960
Non-convertible debentures	1,560,618	(413,818)	-	(28,276)	154,391	23,521	1,296,436
	<b>2,133,899</b>	<b>(823,732)</b>	<b>557,428</b>	<b>(44,254)</b>	<b>154,391</b>	<b>23,521</b>	<b>2,001,253</b>

<sup>1</sup> Management Fees - \$330,000, Bonus - \$175,000. Interest - \$52,428 (USD 38,754).

## Winston Gold Corp.

(An Exploration Stage Company)

### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

#### 5. CHANGE IN LIABILITIES FROM FINANCING ACTIVITIES (cont'd)

For the year ended December 31, 2019

	January 1, 2019	Cash flows	Management fees accrual	Non-cash changes Foreign exchange movements	Debtore bonus rolled into principal	Amortization of deferred financing costs	December 31, 2019
	\$	\$	\$	\$	\$	\$	\$
Due to directors *	98,592	(154,951)	240,000	-	-	-	183,641
LT director loan	-	389,640	-	-	-	-	389,640
Non-convertible debentures	1,315,952	-	-	(76,674)	119,266	202,074	1,560,618
	<u>1,414,544</u>	<u>234,689</u>	<u>240,000</u>	<u>(76,674)</u>	<u>119,266</u>	<u>202,074</u>	<u>2,133,899</u>

\* \$70,000 was used for share subscriptions received in advance

#### 6. MARKETABLE SECURITIES

In connection with the sale of Goldridge Holdings (Note 14), MNRG was to issue 21,942,576 MNRG ordinary shares of which 19,748,318 shares were issued on July 30, 2019. These consideration shares were valued at \$0.00481 (GBX 0.3000) each for total consideration of \$94,899.

The following is a continuity of the revaluation of marketable securities for the year ended December 31, 2019 and loss on disposal for the year ended December 31, 2020:

	Date	Number of Shares	Value of securities	Gain/(Loss)
Balance at December 31, 2018	30-Dec-18	-		
Securities received subsequent to sale of subsidiary	30-Jul-19	19,748,318	\$ 94,899	
Value of Securities at December 31, 2019	31-Dec-19	19,748,318	\$ 210,278	
Unrealized gain on value of securities December 31, 2019				\$ 115,379
For the three months ended March 31, 2020			<b>Proceeds on sale</b>	
Disposal of securities	31-Jan-20	(19,748,318)	\$ 181,389	\$ (28,889)
Unrealized loss on value of securities on disposal	31-Jan-20		\$ (115,379)	
Unrealized gain on value of securities on disposal	31-Jan-20		\$ 30,853	\$ (84,526)
Net unrealized loss on value of securities	31-Dec-20			\$ (113,415)
Realized gain on disposal of securities	31-Dec-20			\$ 84,526
Net Loss on disposal of securities December 31, 2020				\$ (28,889)

**Winston Gold Corp.**

(An Exploration Stage Company)

**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)****7. PREPAID EXPENSES AND DEPOSITS**

	December 31, 2020	December 31, 2019
Prepaid expenses	\$ 25,464	\$ -
Deposits	53,562	21,988
<b>Total</b>	<b>\$ 79,026</b>	<b>\$ 21,988</b>

**8. EQUIPMENT**

Cost	Building	Leaseholds	Exploration Equipment	Vehicles	Computer Equipment	Total
	\$	\$	\$	\$	\$	\$
At December 31, 2019	75,980	-	724,293	17,274	1,323	818,870
Additions/Disposals	16,098	72,260	534,603	32,325	35,617	690,903
Foreign exchange	(2,317)	(3,679)	(41,495)	(1,987)	(3,137)	(52,615)
At December 31, 2020	89,761	68,581	1,217,401	47,612	33,803	1,457,158

Accumulated Amortization	Building	Leaseholds	Exploration Equipment	Vehicles	Computer Equipment	Total
At December 31, 2019	-	-	(158,470)	(7,598)	(1,323)	(167,391)
Amortization for the year	(2,907)	-	(134,754)	(5,827)	(2,226)	(145,714)
Foreign exchange	148	-	9,268	447	1,436	11,299
At December 31, 2020	(2,759)	-	(283,956)	(12,978)	(2,113)	(301,806)
<b>Net Book Value</b>	<b>87,002</b>	<b>68,581</b>	<b>933,445</b>	<b>34,634</b>	<b>31,690</b>	<b>1,155,352</b>

*For the year ended December 31, 2019*

Cost	Building	Leaseholds	Exploration Equipment	Vehicles	Computer Equipment	Total
	\$	\$	\$	\$	\$	\$
At December 31, 2018	-	-	272,813	9,959	1,390	284,162
Additions/Disposals	77,624	-	474,610	7,961	-	560,195
Foreign exchange	(1,644)	-	(23,130)	(646)	(67)	(25,487)
At December 31, 2019	75,980	-	724,293	17,274	1,323	818,870

**Winston Gold Corp.**

(An Exploration Stage Company)

**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)****8. EQUIPMENT (cont'd)**

Accumulated Amortization	Building	Leaseholds	Exploration Equipment	Vehicles	Computer Equipment	Total
At December 31, 2018	-	-	(123,453)	(5,212)	(893)	(129,558)
Amortization for the year	-	-	(41,787)	(2,694)	(484)	(44,965)
Foreign exchange	-	-	6,771	308	53	7,132
At December 31, 2019	-	-	(158,470)	(7,598)	(1,323)	(167,391)
Net Book Value	75,980	-	565,823	9,676	-	651,479

**9. RIGHT OF USE ASSET AND LEASE LIABILITY**

On March 1, 2020, the Company entered into a right-of use lease with Paradine LLC (the "Lease") for use of the Paradine Mill in Montana (Note 20(c)). Under the terms of the Lease, the Company is obligated to pay USD 20,000 for a term of 60 months. When measuring the present value of lease obligations, the Company discounted the remaining lease payments using the estimated borrowing rate of 15%.

The following is a continuity of the right-of use asset and lease liability for the years ended December 31, 2020 and 2019:

	December 31, 2020	December 31, 2019
<b>Right-of-use asset</b>	\$	\$
Right of use asset, beginning of year	-	-
Additions	<b>1,128,965</b>	-
Amortization	<b>(188,924)</b>	-
Foreign exchange	<b>(48,067)</b>	-
Right of use asset, end of year	<b>891,974</b>	-
<b>Lease Liability</b>		
Lease liability, beginning of year	-	-
Additions	<b>(1,128,965)</b>	-
Payments	<b>269,669</b>	-
Interest (exploration & evaluation expenses)	<b>(134,249)</b>	-
Foreign exchange	<b>51,049</b>	-
Lease liability, end of year	<b>(942,496)</b>	-
Lease liability-current	<b>(175,966)</b>	
Lease liability-long term	<b>(766,530)</b>	
Total Lease liability, end of year	<b>(942,496)</b>	

## **Winston Gold Corp.**

(An Exploration Stage Company)

### **Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)**

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#### **10. DUE TO DIRECTORS**

As at December 31, 2020, the non-interest bearing amounts due to directors were \$184,392 (December 31, 2019 - \$27,822). These loans are unsecured and have no fixed terms of repayment. (Note 21). The interest bearing amounts due to directors were \$138,465 (USD 108,754) (December 31, 2019 – \$155,819 (USD 119,971)). These loans are unsecured, bear simple interest at 10% annually and have no fixed terms of repayment.

During the year ended December 31, 2020, the Company repaid \$348,430 in non-interest bearing director loans and \$615,576 (USD 469,971) in interest-bearing director loans. During the year ended December 31, 2020, \$554,092 (USD 420,000) in interest-bearing director loans was advanced.

During the year ended December 31, 2019, the Company repaid \$306,678 and \$4,092 (USD 3,000) in non-interest bearing director loans of which \$70,000 was used for share subscriptions.

#### **11. DEBENTURES PAYABLE**

During the year ended December 31, 2017, the Company entered into non-convertible USD debentures payable agreements. The Series 1 debentures matured on December 1, 2019. The Series 2 debentures matured on March 31, 2020. The debentures are secured on a general lien basis by all property and assets of the Company, non-convertible and pay annual interest at 10% calculated from the date the Subscription Agreement is executed and the funds are received from the investor.

The interest was payable semi-annually on June 1 and December 1 of each year until maturity. On the maturity date, in addition to the interest rate, the Company was obligated to pay a bonus to the lenders in an amount equal to the difference between the Principal Amount and the gold price differential calculated as the difference between the gold price on the Closing Date and the gold price on the Maturity Date to a maximum of USD 1,600 per troy ounce. The Bonus Payment is calculated as Principal Amount x [(Gold Price on Maturity – Gold Price on Closing)/Gold Price on Closing]. If the debentures are not re-paid on the Maturity Dates, the Company shall pay 10% semi-annual interest on the outstanding portion of the principal amount on December 1 and June 1 of each year until the date of repayment. The bonus payment of \$119,266 (USD 89,694) related to the Series 1 debentures was recognized in profit or loss upon their maturity, rolled into the principal and Renewed Series 1 matured on December 1, 2020. The bonus payment of \$154,391 (USD 108,826) related to the Series 2 debentures was recognized in profit or loss upon their maturity, rolled into the principal and Renewed Series 2 will mature on March 31, 2021. The Company has the option to repay any portion of the Renewed Series 1 and Series 2 debentures at any time.

In connection with the non-convertible debenture financing, the Company incurred total transaction costs of \$470,031 which were netted with the debentures and amortized over the term of the debentures.

The following is a continuity of non-convertible debentures due from the Company for the years ended December 31, 2020 and 2019:

## Winston Gold Corp.

(An Exploration Stage Company)

### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

#### 11. DEBENTURES PAYABLE (cont'd)

	December 31, 2020	December 31, 2019
<b>Debentures:</b>	\$	\$
Non-convertible debentures, beginning of year	1,584,139	1,541,546
Additions	154,391	119,266
Payments	(413,818)	-
Foreign exchange	(28,276)	(76,673)
Non-convertible debentures, end of year	1,296,436	1,584,139
<b>Loan transaction costs:</b>		
Loan transaction costs, beginning of year	(23,521)	(225,594)
Accretion expense during the year	23,521	202,073
Loan transaction costs, end of year	-	(23,521)
<b>Non-convertible debentures balance (net of transaction costs), end of year</b>	<b>1,296,436</b>	<b>1,560,618</b>

During the year ended December 31, 2020, the Company recorded \$150,824 (2019 – \$151,161) in interest expense.

During the year ended December 31, 2020, the Company repaid \$413,818 (USD 310,270) (2019 - \$Nil) in S1 Debenture principal.

The Company has recorded an embedded derivative liability that arose from the Company's obligation to pay the Bonus Payment which was indexed to the gold price. The embedded derivative liability was subject to fair value adjustment based on gold price at the end of each reporting period, with changes recorded as unrealized gain or loss on embedded derivative liability in the statement of loss and comprehensive loss. During the year ended December 31, 2020, the embedded derivative was extinguished with the recognition of the S2 bonus payment resulting in a gain on the S2 embedded derivative in the amount of \$109,447 based on the spot gold price of USD 1,584 (2019 - unrealized loss \$101,140).

#### 12. DUE TO DIRECTORS – LONG TERM

On October 4, 2019, the Company received a director loan in the amount of \$389,640 (USD 300,000). The loan is secured by exploration equipment, namely a jumbo drill. The loan bears simple interest at an annual rate of 10%. Principal and interest is repayable monthly, amortized for 36 months commencing at the director's discretion. On January 4, 2020, the director entered into an amended loan agreement to extend the repayment date for 6 additional months with an option for further extensions. During the year ended December 31, 2020, the director extended the grace period indefinitely. As at December 31, 2020, the long-term loan due to director is \$381,960 (USD 300,000).



## **Winston Gold Corp.**

(An Exploration Stage Company)

### **Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)**

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#### **13. RESTORATION LIABILITIES AND RECLAMATION BONDS**

As at December 31, 2020, management estimated site restoration costs relating to evaluation work completed on the exploration of the Winston property to be \$56,572 (USD 44,433) (December 31, 2019 - \$37,769 (USD 29,080)) which has been accrued. These costs are estimated by management and approved by the Montana Department of Environmental Quality ("DEQ"). The Company is required to issue reclamation bonds to the DEQ to cover these estimated restoration costs.

The reclamation bonds issued relating to this exploration amount to \$56,572 (USD 44,433) (December 31, 2019 - \$37,769 (USD 29,080)). The reclamation bonds will be returned to the Company upon the DEQ being satisfied with the site restoration work performed.

#### **14. GAIN ON DISPOSAL OF SUBSIDIARY**

On July 24, 2018, the Company entered into a Sale and Purchase Agreement with MetalNRG ("MNRG"), an arms-length third party, wherein MNRG purchased the Company's 100% interest in Goldridge Holdings Limited ("GRH") and its subsidiary, Goldridge Holdings (USA) Limited ("GRH US"), including all interests in the Gold Ridge Project located in SE Arizona, for cash consideration of USD 200,000 and 21,942,576 shares in MNRG of which 19,748,318 shares were received in fiscal 2019 (Note 6). The transaction closed on November 5, 2018 and Goldridge Holdings, including its subsidiary, was deconsolidated on that date. Cash consideration in the amount of \$261,920 (USD 200,000) was received. During the year ended December 31, 2018, the Company recognized a gain on the disposal of Goldridge Holdings and its subsidiary in the amount of \$324,126.

During the year ended December 31, 2019, the Company received 19,748,318 shares in MNRG and recognized a gain on the disposal of Goldridge Holdings and its subsidiary in the amount of \$94,899.

#### **15. SHARE SUBSCRIPTIONS**

During the year ended December 31, 2020, the Company received \$670,400 for private placement units to be issued at a value of \$0.125 per unit. These units were issued on January 21, 2021 (Note 26).

During the year ended December 31, 2019, the Company received \$Nil for units to be issued.

#### **16. SHARE CAPITAL**

##### **Authorized**

Unlimited Common shares, voting  
Unlimited Preferred shares

## Winston Gold Corp.

(An Exploration Stage Company)

### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

#### 16. SHARE CAPITAL (cont'd)

##### Issued and outstanding – Common shares

	Number of Shares		Value
<b>Balance, December 31, 2018</b>	<b>104,546,123</b>	<b>\$</b>	<b>19,802,404</b>
Shares issued for cash <sup>(a,b,c,d)</sup>	55,104,092		3,183,372
Shares issued for option exercise <sup>(f)</sup>	20,000		1,681
Shares issued for subscriptions due <sup>(a)</sup>	13,563,158		678,158
Share issue costs <sup>(e)</sup>	-		(63,279)
Allocated to warrants	-		(1,855,184)
<b>Balance, December 31, 2019</b>	<b>173,233,373</b>	<b>\$</b>	<b>21,747,152</b>
Shares issued for cash <sup>(g,h,i)</sup>	152,852,621		12,018,493
Shares issued for warrant exercise <sup>(l)</sup>	10,598,000		1,321,527
Shares issued for option exercise <sup>(k)</sup>	2,680,000		231,849
Broker shares issued <sup>(l,j)</sup>	572,000		40,040
Share issue costs <sup>(i)</sup>	-		(119,457)
Allocated to warrants	-		(5,794,273)
<b>Balance, December 31, 2020</b>	<b>339,935,994</b>	<b>\$</b>	<b>29,445,331</b>

##### December 31, 2019

- a) On March 26, 2019, the Company issued 21,340,000 units at a price of \$0.05 per unit for total proceeds of \$1,067,000. \$678,158 of these proceeds were in settlement of share subscriptions due (Note 15). Each unit consists of one common share and one common share purchase warrant. The 21,340,000 warrants were assigned a relative fair value of \$507,843, or \$0.0238 per warrant. Each warrant entitles the holder to purchase one additional share in the Company at an exercise price of \$0.10, exercisable on or before March 26, 2024.
- b) On August 28, 2019, the Company issued 33,055,000 units at a price of \$0.05 per unit for total proceeds of \$1,652,750. Each unit consists of one common share and one common share purchase warrant. The 33,055,000 warrants were assigned a relative fair value of \$798,519, or \$0.02416 per warrant. Each warrant entitles the holder to purchase one additional share in the Company at an exercise price of \$0.10, exercisable on or before August 28, 2024.
- c) On October 8, 2019, the Company issued 7,724,500 units at a price of \$0.08 per unit for total proceeds of \$617,960. Each unit consists of one common share and one common share purchase warrant. The warrants were assigned a relative fair value of \$298,332, or \$0.0386 per warrant. Each warrant entitles the holder to purchase one additional share in the Company at an exercise price of \$0.20, exercisable on or before October 8, 2024.

## Winston Gold Corp.

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### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 16. SHARE CAPITAL (cont'd)

- d) On December 23, 2019, the Company issued 6,547,750 common shares at a price of \$0.08 per unit for total proceeds of \$523,820. Each unit consists of one common share and one common share purchase warrant. The warrants were assigned a relative fair value of \$250,490, or \$0.0383 per warrant. Each warrant entitles the holder to purchase one additional share in the Company at an exercise price of \$0.20 exercisable on or before December 23, 2024.
- e) Share issue costs associated with the above financings total \$63,278.
- f) On December 17, 2019, the Company issued 20,000 common shares pursuant to stock options exercised at a value of \$0.05 per option for proceeds of \$1,000. The fair value of these stock options is \$1,681 (Note 17).

#### December 31, 2020

- g) On April 28, 2020, the Company issued 20,885,275 units for total gross proceeds of \$1,670,822. Each unit consists of one common share and one common share purchase warrant. The 20,885,275 warrants were assigned a relative fair value of \$802,356 or \$0.0384 per warrant. Each warrant entitles the holder to purchase one additional share in the Company at an exercise price of \$0.12, on or before April 28, 2025.
- h) On May 29, 2020, the Company issued 40,446,333 units for total gross proceeds of \$2,426,780. Each unit consists of one common share and one common share purchase warrant. The 40,446,333 warrants were assigned a relative fair value of \$1,168,718 or \$0.0289 per warrant. Each warrant entitles the holder to purchase one additional share in the Company at an exercise price of \$0.12, on or before May 29, 2025.
- i) On August 28, 2020, the Company issued 46,922,000 units for total gross proceeds of \$3,284,540. Each unit consists of one common share and one common share purchase warrant. The 46,922,000 warrants were assigned a relative fair value of \$1,587,027 or \$0.0338 per warrant. Each warrant entitles the holder to purchase one additional share in the Company at an exercise price of \$0.12 on or before August 28, 2025. The Company also issued 572,000 finders units (Note 16 j).
- j) Share issue costs associated with the above financings total \$119,457, including 572,000 finders shares valued at \$40,040 or \$0.07 per share and 572,000 finders warrants valued at \$52,037 or \$0.091 per warrant.
- k) During the year ended December 31, 2020, the Company issued 2,580,000 common shares pursuant to stock options exercised at a value of \$0.05 per option and 100,000 common shares pursuant to stock options exercised at a value of \$0.07 per option for total proceeds of \$136,000. The fair value of these stock options is \$95,849, a weighted average value of \$0.0358 per option. (Note 17)
- l) During the year ended December 31, 2020, the Company issued 10,598,000 common shares pursuant to warrants exercised at a value of \$0.10 per warrant for total proceeds of \$1,059,800. The relative fair value of these warrants is \$261,727, a weighted average value of \$0.0247 per warrant (Note 18).

## Winston Gold Corp.

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### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

#### 17. STOCK OPTIONS

The Company has a 10% “rolling” stock option plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock (on a non-diluted basis) of the Company. Under the plan, the exercise price of each option equals the market price, minimum price or a discounted price of the Company’s stock as calculated on the date of the grant. The options can be granted for a maximum term of ten years and vest as determined by the Board of Directors.

The following is a continuity of stock option activity for the years ended December 31, 2020 and 2019.

	Number of Options	Weighted Average Exercise Price
Outstanding and exercisable December 31, 2018	6,630,000	\$0.10
Granted	3,700,000	\$0.05
Exercised	(20,000)	\$0.05
Outstanding and exercisable December 31, 2019	10,310,000	\$0.09
Granted	13,350,000	\$0.14
Exercised	(2,680,000)	\$0.05
Outstanding and exercisable December 31, 2020	20,980,000	\$0.13

During the year ended December 31, 2020, the Company granted 13,350,000 (2019 – 3,700,000) stock options under its Stock Option Plan to directors, officers, employees and consultants. Options vested 100% on the date granted.

The total fair value of share-based payment expense on stock options granted to employees and consultants of the Company for the year ended December 31, 2020 is \$1,625,727 (December 31, 2019 – \$157,490).

During the year ended December 31, 2020, 2,580,000 stock options were exercised at a value of \$0.05 per option and 100,000 options were exercised at a value of \$0.07 per option (Note 16(k)).

During the year ended December 31, 2019, 20,000 stock options were exercised at a value of \$0.05 per option (Note 16 (f)).

Annualized volatility is estimated by considering historic average share price volatility of the Company’s publicly traded shares.

The Company had the following stock options outstanding as at December 31, 2020:

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**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)****17. STOCK OPTIONS (cont'd)**

<u>Number of Options</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
150,000	\$0.20	August 24, 2021
900,000	\$0.40	December 15, 2021
280,000	\$0.10	November 27, 2022
3,250,000	\$0.05	November 27, 2022
2,350,000	\$0.05	March 26, 2024
700,000	\$0.07	August 28, 2024
4,250,000	\$0.10	April 28, 2025
3,000,000	\$0.12	July 31, 2025
6,100,000	\$0.18	October 27, 2025
<u>20,980,000</u>	<u>\$0.13</u>	

The following weighted average assumptions were used for the Black-Scholes valuation of the options granted during the year ended December 31, 2020 and 2019.

	March 26, 2019	August 28, 2019	April 28, 2020	July 31, 2020	October 27, 2020
Share price	\$0.040	\$0.065	\$0.075	\$0.120	\$0.175
Risk-free interest rate	1.48%	1.23%	0.39%	0.26%	0.32%
Expected life of options	5 years	5 years	5 years	5 years	5 years
Volatility	167%	172%	168%	164%	162%
Dividend rate	0.0%	0.0%	0.0%	0.0%	0.0%
Exercise price	\$0.05	\$0.07	\$0.10	\$0.12	\$0.18
Fair value per option	\$0.0374	\$0.0614	\$0.0698	\$0.1121	\$0.1628
Forfeiture rate	0%	0%	0%	0%	0%

**Winston Gold Corp.**

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**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)****18. SHARE PURCHASE WARRANTS**

The following is a continuity of share purchase warrant activity for the year ended December 31, 2020:

Expiry Date	Exercise price	January 1, 2020	Granted	Exercised	Expired	December 31, 2020
March 23, 2021	\$0.10	551,030	-	-	-	551,030
August 3, 2021	\$0.20	1,000,000	-	-	-	1,000,000
September 15, 2022	\$0.10	3,372,104	-	(520,000)	-	2,852,104
February 2, 2023	\$0.10	7,310,001	-	-	-	7,310,001
April 17, 2023	\$0.10	12,578,000	-	(3,978,000)	-	8,600,000
April 17, 2023	\$0.10	424,240	-	-	-	424,240
March 26, 2024	\$0.10	21,340,000	-	(100,000)	-	21,240,000
August 28, 2021	\$0.10	549,200	-	(250,000)	-	299,200
August 28, 2024	\$0.10	33,055,000	-	(5,750,000)	-	27,305,000
October 8, 2024	\$0.20	7,724,500	-	-	-	7,724,500
December 23, 2024	\$0.20	6,547,750	-	-	-	6,547,750
April 28, 2025	\$0.12	-	20,885,275	-	-	20,885,275
May 29, 2025	\$0.12	-	40,446,333	-	-	40,446,333
August 28, 2022	\$0.12	-	572,000	-	-	572,000
August 28, 2025	\$0.12	-	46,922,000	-	-	46,922,000
October 16, 2025	\$0.14	-	26,815,013	-	-	26,815,013
December 4, 2025	\$0.20	-	17,784,000	-	-	17,784,000
<b>Total</b>		<b>94,451,825</b>	<b>153,424,621</b>	<b>(10,598,000)</b>	<b>-</b>	<b>237,278,446</b>
<b>Weighted average exercise price</b>			<b>\$0.13</b>	<b>\$0.10</b>		<b>\$0.13</b>

The following is a continuity of share purchase warrant activity for the year ended December 31, 2019:

Expiry Date	Exercise price	January 1, 2019	Granted	Exercised	Expired	December 31, 2019
March 23, 2021	\$0.10	551,030	-	-	-	551,030
August 3, 2021	\$0.20	1,000,000	-	-	-	1,000,000
September 15, 2022	\$0.10	3,372,104	-	-	-	3,372,104
February 2, 2023	\$0.10	7,310,001	-	-	-	7,310,001
April 17, 2023	\$0.10	12,578,000	-	-	-	12,578,000
April 17, 2023	\$0.10	424,240	-	-	-	424,240
March 26, 2024	\$0.10	-	21,340,000	-	-	21,340,000
August 28, 2021	\$0.10	-	549,200	-	-	549,200
August 28, 2024	\$0.10	-	33,055,000	-	-	33,055,000
October 8, 2024	\$0.20	-	7,724,500	-	-	7,724,500
December 23, 2024	\$0.20	-	6,547,750	-	-	6,547,750
<b>Total</b>		<b>25,235,375</b>	<b>69,216,450</b>	<b>-</b>	<b>-</b>	<b>94,451,825</b>
<b>Weighted average exercise price</b>			<b>\$0.12</b>			<b>\$0.12</b>

**Winston Gold Corp.**

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**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)****18. SHARE PURCHASE WARRANTS (cont'd)**

The Company had the following warrants outstanding as at December 31, 2020:

<u>Number of Warrants</u>		<u>Exercise Price</u>	<u>Expiry Date</u>
551,030	(i)	\$0.10	March 23, 2021
1,000,000		\$0.20	August 3, 2021
2,852,104		\$0.10	September 15, 2022
7,310,001		\$0.10	February 2, 2023
8,600,000		\$0.10	April 17, 2023
424,240	(ii)	\$0.10	April 17, 2023
21,240,000		\$0.10	March 26, 2024
299,200	(ii)	\$0.10	August 28, 2021
27,305,000		\$0.10	August 28, 2024
7,724,500		\$0.20	October 8, 2024
6,547,750		\$0.20	December 23, 2024
20,885,275		\$0.12	April 28, 2025
40,446,333		\$0.12	May 29, 2025
572,000	(ii)	\$0.12	August 28, 2022
46,922,000		\$0.12	August 28, 2025
26,815,013		\$0.14	October 16, 2025
17,784,000		\$0.20	December 4, 2025
<b>237,278,446</b>			

(i) These are broker warrants in connection with the Company's financings

(ii) These are finders warrants in connection with the Company's financings

The following weighted average assumptions were used for the Black-Scholes valuation of the warrants granted during the years. Warrants included in units are valued based on the relative fair value allocation:

	March 26, 2019 (PP)	August 28, 2019 (finders)	August 28, 2019 (PP)	October 8, 2019 (PP)	December 23, 2019 (PP)
Share Price	\$0.040	\$0.065	\$0.065	\$0.115	\$0.085
Risk-free interest rate	1.48%	1.23%	1.23%	1.32%	1.66%
Expected life of warrants	5 years	2 years	5 years	5 years	5 years
Percentage of warrants (PP)	47.60%	N/A	48.31%	48.28%	47.82%
Volatility	167%	173%	172%	173%	170%
Dividend rate	0.0%	0.0%	0.0%	0.0%	0.0%
Forfeiture rate	0.0%	0.0%	0.0%	0.0%	0.0%
Fair value per warrant	\$0.0238	\$0.0475	\$0.0242	\$0.0386	\$0.0383

**Winston Gold Corp.**

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**Notes to the Consolidated Financial Statements  
For the years ended December 31, 2020 and 2019  
(Expressed in Canadian Dollars)****18. SHARE PURCHASE WARRANTS (cont'd)**

	April 28, 2020 (PP)	May 29, 2020 (PP)	August 28, 2020 (finders)	August 28, 2020 (PP)	October 16, 2020 (PP)	December 4, 2020 (PP)
Share Price	\$0.075	\$0.090	\$0.125	\$0.125	\$0.180	\$0.170
Risk-free interest rate	0.39%	0.32%	0.32%	0.32%	0.30%	0.43%
Expected life of warrants	5 years	5 years	2 years	5 years	5 years	5 years
Percentage of warrants (PP)	48.02%	48.16%	N/A	48.32%	48.45%	47.99%
Volatility	168%	167%	153%	164%	163%	161%
Dividend rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Forfeiture rate	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Fair value per warrant	\$0.0384	\$0.0289	\$0.0910	\$0.0338	\$0.0436	\$0.0600

**19. CONTRIBUTED SURPLUS**

Contributed surplus consists of the fair value of stock options granted and broker warrants expired less the fair value of options exercised. The following summarizes the changes in contributed surplus.

	<b>December 31, 2020</b>	December 31, 2019
Balance, beginning of year	<b>\$ 1,489,906</b>	\$ 1,333,097
Share-based payments	<b>1,625,727</b>	157,490
Stock options exercised	<b>(95,849)</b>	(681)
Balance, end of year	<b>\$ 3,019,784</b>	\$ 1,489,906

**20. EXPLORATION AND EVALUATION EXPENSES**

Properties	<b>December 31, 2020</b>	December 31, 2019
Holmes Property <sup>(a)</sup>	<b>\$ 33,291</b>	\$ 53,306
Winston Property <sup>(b)</sup>	<b>7,426,529</b>	1,935,890
Paradine Mill <sup>(c)</sup>	<b>735,026</b>	-
	<b>\$ 8,194,846</b>	\$ 1,989,196



## Winston Gold Corp.

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### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 20. EXPLORATION AND EVALUATION EXPENSES (cont'd)

(a) Holmes Property:

On May 14, 2014, the Company entered into a five-year Mining Lease Agreement (“H Lease”) with Marcus P. Holmes (“Holmes”), an arm’s length party, whereby Holmes leased five (5) unpatented mining claims located in Broadwater County, Montana, USA to the Company for exploration. Per the terms of the agreement, the Company will keep the minerals extracted except oil and gas. To explore the property, the Company paid Holmes an advance royalty payment of \$11,191 (USD 10,000) and issued 1,000,000 common shares valued at \$100,000.

In addition to assuming all underlying payment obligations including governmental taxes, levies and fees, the Company will pay additional advance royalty payments of USD 1,000 monthly from June 2014 to May 2019 [Paid - \$77,548 (USD 60,000)]. The H Lease is renewable for additional 5 year terms at USD 20,000 per renewal [paid \$26,754 (USD 20,000)] with an advanced royalty payment of USD 2,000 monthly from June 2019 to June 2024 [Paid \$53,286 (USD 40,000) to December 31, 2020].

The Company will pay Holmes a production royalty of 2% of Net Smelter Returns (NSR). Advance royalty payments are credited towards the 2% NSR payable on production. The Company has the option to purchase the 2% NSR from Holmes for a payment of USD 2,500,000.

The Company has the option to terminate the H Lease at any time by providing 30 days written notice to Holmes.

(b) Winston Property:

On July 15, 2014, the Company entered into a five-year Mining Lease Agreement (“W Lease”) with Winston Realty L.L.C. (“Winston”, a limited liability company), an arm’s length party, whereby Winston leased sixteen (16) patented lode mining claims located in Broadwater County, Montana U.S.A. to the Company for exploration. Per the terms of the agreement, the Company will keep the minerals extracted except oil and gas. To explore the property the Company paid Winston an advance royalty payment of \$10,729 (USD 10,000) and issued 2,000,000 common shares in the Company valued at \$200,000.

In addition to assuming all underlying payment obligations including governmental taxes, levies and fees, the Company will pay additional advance royalty payments of USD 1,000 monthly from August to October 2014 [Paid \$3,300 (USD 3,000)] and USD 2,500 monthly from November 2014 to July 2019 [Paid \$188,643 (USD 142,500)] based on minimum quarterly expenditures on the property of USD 50,000 or USD 200,000 annually [Paid \$12,968,201 (USD 10,004,398) to December 31, 2020].

The W Lease is renewable for additional 5 year terms at USD 20,000 per renewal [Paid \$26,408 (USD 20,000)] with an advanced royalty payment of USD 5,000 monthly from August 2019 to August 2024 [Paid \$120,086 (USD 90,000)] to December 31, 2020.

On May 18, 2016, the Company amended the W Lease. The amendment extends the W Lease for an additional 10 years until July 15, 2034 with USD 20,000 due at the end of each 5 year period and the continuation of advanced royalty payments of USD 5,000 monthly. For consideration of 1,500,000 common shares in the Company valued at \$150,000, the amendment superseded the number of contiguous patented lode mining claims to thirteen (13) and the Company acquired the option to purchase the thirteen (13) Leased claims and the subsurface rights in the Leased property as well as 100 acres of the Company’s choice out of 400 acres of land held by Winston for a purchase price of USD 2,000,000.

## Winston Gold Corp.

(An Exploration Stage Company)

### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 20. EXPLORATION AND EVALUATION EXPENSES (cont'd)

##### (b) Winston Property (cont'd):

Winston has the right to buy back all rights and terminate the W Lease for USD 1 where there is a cessation of all mining, mineral exploration and mineral processing activities for a period of five (5) consecutive years.

The Company will pay Winston a production royalty of 3% NSR if the price of gold is USD 2,000 or less and 4% NSR if the price of gold exceeds USD 2,000. Advance royalty payments are credited towards the 3% or 4% NSR payable on production.

The Company has the option to terminate the W Lease at any time by providing 30 days written notice to Winston.

##### (c) Paradine Mill

On February 12, 2020, the Company entered into a five-year Mill Lease Agreement ("M-Lease") with Paradine LLC ("Paradine", a limited liability company), an arm's length party, whereby the Company leased the Paradine Mill, located in Broadwater County, Montana. In addition to assuming payment obligations of mill repairs, property and liability insurance and governmental taxes, levies and fees, the Company will pay monthly base rent of USD 20,000. In addition to base rent, the Company shall pay a milling fee calculated by multiplying the number of short dry tons of ore processed during the month by the "Applicable Rate" for that month. The Applicable Rate shall be an amount equal to the Average Gold Price as shown on Kitco.com multiplied by .008. The applicable Rate shall not exceed USD 14.40 per short dry ton and shall not be less than USD 11.20 per short dry ton. The Company has the option to purchase the Mill on the last day of the term of the M-Lease. The monthly lease payments began March 1, 2020. Included in Mill expenses is \$188,924 (USD 140,115) in amortization of right of use asset and \$134,249 (USD 99,566) in interest on lease liability (Note 9).

##### (d) Goldridge Property:

On October 4, 2016, the Company acquired Holdridge Holdings Limited ("Goldridge") and its subsidiary, Goldridge Holdings (USA) Limited ("Goldridge USA"). The Goldridge property is located in north-central Cochise County in Arizona and is comprised of certain patented mining claims, 112 unpatented mining claims, and one leased group of 12 unpatented mining claims.

On November 5, 2018, the Company sold all interest in the Goldridge Property to MNRG for cash consideration of \$261,920 (USD 200,000) and recognized a gain on disposal of \$324,126. On July 30, 2019, the Company recognized an additional gain for share consideration received of \$94,899. (Notes 6,14).

#### 21. RELATED PARTY TRANSACTIONS

Transactions with related parties are incurred in the normal course of business. Related party transactions have been listed below, unless they have been disclosed elsewhere in the consolidated financial statements. During the year ended December 31, 2020, the Company incurred the following charges with related parties that include officers, directors or companies with common directors of the Company:

## Winston Gold Corp.

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### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 21. RELATED PARTY TRANSACTIONS (cont'd)

Included in due to directors is \$184,392 (December 31, 2019 - \$27,822) non-interest bearing amounts along with \$138,465 (USD 108,754) (December 31, 2019 - \$155,819 (USD 119,971)) that bear a 10% annual simple interest. (See Note 10 for amounts due to directors).

Included in due to director-long term is \$381,960 (USD 300,000) (December 31, 2019 - \$389,640 (USD 300,000)) that bear a 10% annual simple interest. (See Note 12 for long term amounts due to directors).

Included in accounts receivable is \$58,586 (USD 46,015) (2019 - \$Nil) due from a company having a director in common with the Company. This amount was received in January 2021 (Note 26). Also included in accounts receivable is \$27,086 (2019 - \$Nil) due from companies having a director in common with the Company. \$13,543 was received in March 2021 (Note 26).

During the year ended December 31, 2020, the Company spent \$137,323 (USD 103,273) (2019 - \$Nil) and recovered \$200,710 (USD 153,405) (2019 - \$Nil) regarding exploration and evaluation expenditures on behalf of a company having a director in common with the Company. The amount recovered included use of equipment owned by and administration and assay services provided by the Company.

During the year ended December 31, 2020, management fees and bonus to directors were \$525,000 (2019 - \$240,000) and unsecured loan interest to a director was \$52,428 (USD 38,753) (2019 - \$Nil).

During the year ended December 31, 2020, the Company paid \$2,250 (2019 - \$Nil) in administration fees to a director.

During the year ended December 31, 2020 the Company granted 5,500,000 stock options to directors and officers of the Company resulting in share-based payments of \$704,577.

During the year ended December 31, 2019, the Company granted 2,300,000 stock options to directors and officers of the Company resulting in share-based payments of \$85,924.

#### 22. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company includes items in shareholders' equity (deficiency) in the definition of capital.

The Company's primary objective with respect to its capital management is to ensure that it has sufficient cash resources to further exploration on its properties. To secure the additional capital necessary to pursue these plans, the Company will attempt to raise additional funds through the issuance of equity, debt or by securing strategic partners.

The Company is not subject to externally imposed capital requirements and there has been no change with respect to the overall capital risk management strategy during the year ended December 31, 2020.

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### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

#### 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Company is exposed to a variety of financial risks by virtue of its activities. In particular: market risk (composed of currency risk), liquidity risk, fair value risk and credit risk. The overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on financial performance.

Risk management is carried out by management under policies reviewed by the Board of Directors. Management is charged with the responsibility of establishing controls and procedures to ensure that financial risks are mitigated in accordance with the approved policies.

a) Market risk:

Currency risk:

Foreign exchange risk arises from purchase transactions as well as recognized financial assets and liabilities denominated in foreign currencies.

The Company is exposed to currency risk through the following financial assets and liabilities denoted in United States dollars:

	<b>December 31,</b>	December 31,
	<b>2020</b>	2019
	<b>\$</b>	<b>\$</b>
Cash	<b>1,029,236</b>	95,129
Accounts receivable	<b>53,170</b>	-
Deposits	<b>35,000</b>	10,000
Accounts payable and accrued liabilities	<b>217,386</b>	216,125
Debenture interest payable	<b>8,648</b>	10,359
Embedded derivative liability	-	84,268
Debenture principal	<b>1,018,250</b>	1,219,694
Due to directors	<b>108,754</b>	119,971
Long term loan payable to director	<b>300,000</b>	300,000
Lease liability	<b>740,258</b>	-

The above balances were translated into US dollars at the year-end rate of \$1.2732 (December 31, 2019 - \$1.2988) Canadian dollars to every US dollar.

Based on the above net exposures as at December 31, 2020, assuming that all other variables remain constant, a +/- 5% change in the Canadian dollar against the United States dollar would result in an increase/decrease in net loss of approximately \$81,000 (December 31, 2019 - \$119,833).

b) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. Senior management is also actively involved in the review and approval of planned expenditures.

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### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

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#### 23. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (cont'd)

b) Liquidity risk (cont'd):

As at December 31, 2020, the Company had working capital deficiency of \$376,550 (December 31, 2019 – deficiency of \$1,958,499). As at December 31, 2020, the Company had cash of \$1,694,849 (December 31, 2019 - \$131,135) to settle current liabilities of \$2,245,207 (December 31, 2019 - \$2,321,900) that are considered short term and expected to be settled within 30 to 90 days.

As a result, the Company has liquidity risk at this time and is dependent on raising funds from external sources. Since the Company does yet earn revenue, it will be required to raise additional capital to fund exploration and operations.

c) Fair value risk:

Fair value represents the amounts at which a financial instrument could be exchanged between willing parties, based on current markets for instruments with the same risk, principal and remaining maturity. Fair value estimates are based on quoted market values and other valuation methods.

The carrying values of cash, accounts receivable, reclamation bonds, accounts payable and accrued liabilities, interest payable, debentures payable and due to directors approximate fair values due to the relatively short term maturities of these instruments. The fair value of the Company's debenture embedded derivative liability is indexed to the gold spot price at the end of each reporting period.

d) Credit risk:

Credit risk is the risk of an unexpected loss if a third party to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit risk with respect to its cash, and reclamation bonds. The Company reduces its credit risk by maintaining its primary bank accounts at large financial institutions and its reclamation bonds with government agencies.

e) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company currently has no interest-bearing financial instruments other than cash, director loans and debentures payable; therefore, its exposure to interest rate risks is insignificant. The Company's director loans and debentures payable bear a fixed interest rate

#### 24. FAIR VALUE HIERARCHY

Financial assets and liabilities measured at fair value are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

Level 1 - Values based on unadjusted quoted prices available in active markets for identical assets or liabilities as of the reporting date.

Level 2 - Values based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

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### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

#### 24. FAIR VALUE HIERARCHY (cont'd)

Level 3 - Values based on prices or valuation techniques that are not based on observable market data.

Cash and marketable securities are measured at Level 1 of the fair value hierarchy. The fair value of accounts payable and accrued liabilities, due to director(s), debenture interest payable, and debentures payable approximates fair value due to the short term nature of the financial instruments. The Company classified its receivables as amortized cost. Accounts payable and accrued liabilities, due to director(s), debenture interest payable, and debentures payable are classified and measured at amortized cost. Assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the placement within the fair value hierarchy. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature.

#### 25. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2020	2019
Loss for the year	\$ (13,157,529)	\$ (3,562,580)
Expected income tax (recovery)	\$ (3,553,000)	\$ (962,000)
Change in statutory, foreign tax, foreign exchange rates and other	(840,000)	(64,000)
Permanent differences	507,000	26,000
Impact of tax change	450,000	-
Share issue cost	(8,000)	(8,000)
Adjustment to prior years provision versus statutory tax returns and expiry of non-capital losses	333,000	25,000
Change in unrecognized deductible temporary differences	3,111,000	983,000
<b>Total income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	2020	2019
Deferred tax assets (liabilities)		
Exploration and evaluation assets	\$ 3,735,000	\$ 1,524,000
Share issue costs	18,000	43,000
Marketable securities	248,000	(16,000)
Debt with accretion	-	(6,000)
Non-capital losses available for future period	2,609,000	1,954,000
	6,610,000	3,499,000
Unrecognized deferred tax assets	(6,610,000)	(3,499,000)
<b>Net deferred tax assets</b>	<b>\$ -</b>	<b>\$ -</b>

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### Notes to the Consolidated Financial Statements For the years ended December 31, 2020 and 2019 (Expressed in Canadian Dollars)

#### 25. INCOME TAXES (cont'd)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2020	Expiry Date Range	2019	Expiry Date Range
<b>Temporary Differences</b>				
Exploration and evaluation assets	\$11,057,000	No expiry date	\$ 4,569,000	No expiry date
Right of use asset and lease obligations	50,000	No expiry date	-	No expiry date
Share issue costs	67,000	2041 to 2044	160,000	2040 to 2043
Marketable securities		No expiry date	(117,000)	No expiry date
Debt with accretion	-	No expiry date	(24,000)	No expiry date
Non-capital losses available for future periods	9,929,000	2034 to 2040	6,845,000	2034 to 2039
Canada	7,179,000	2034 to 2040	5,329,000	2034 to 2039
USA	2,750,000	2036 to 2040	1,516,000	2036 to 2039

Tax attributes are subject to review and potential adjustments by tax authorities.

#### 26. SUBSEQUENT EVENTS

Subsequent to December 31, 2020, the Company completed the following transactions:

- Repaid director loans in the amount of \$268,631.
- On January 21, 2021, the Company issued 8,038,200 units at a price of \$0.125 per unit for total proceeds of \$1,004,775, \$670,400 of which was in settlement of share subscriptions due (Note 15). Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional share in the Company at an exercise price of \$0.20, exercisable on or before January 21, 2026.
- On February 18, 2021, the Company issued 28,816,983 units at a price of \$0.09 per unit for total proceeds of \$2,593,528. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one additional share in the Company at an exercise price of \$0.13, exercisable on or before February 18, 2026. Share issue costs associated with this financing totaled cash of \$24,600 and 266,666 finders warrants.
- Received \$631,435 pursuant to 5,707,683 warrants exercised.
- Received \$252,500 pursuant to 2,200,000 stock options exercised.
- Issued 1,000,000 stock options with an expiry date of January 21, 2026 to a director of the Company. Each option entitles the holder to purchase one common share of the Company at a price of \$0.125 per share.

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#### 26. SUBSEQUENT EVENTS (cont'd)

- g) Issued 2,000,000 stock options with an expiry date of February 1, 2023 to consultants of the Company. Each option entitles the holder to purchase one common share of the Company at a price of \$0.12 per share.
- h) Jointly, with Bond Resources Inc., a company having a director in common with the Company, entered into a Lease Agreement ("HC Lease"), including an option to purchase, with Montana Reclaim LLC (Lessor) over the Hard Cash property. The Hard Cash property consists of nine (9) patented claims covering 166 acres west of Radersburg, Montana, approximately 3 km from the Paradine mill. The Company and Bond are equal partners in the project and will each be responsible for 50% of expenditures. The HC Lease initial term is five (5) years commencing on the date of execution and is renewable for three (3) additional five (5) year terms. Consideration payable to the Lessor consists of an initial cash payment of USD 2,000, shared with Bond; shared monthly payments with Bond of USD 1,500; annual payments by each of Bond and the Company of USD 25,000 payable in shares of Bond and the Company respectively; and USD 25,000, shared with Bond, upon the expiry of each five year term. In addition to the lease payments, by the end of each calendar year commencing in 2021, Bond and the Company must make minimum shared annual expenditures on the property of USD 75,000. The HC Lease includes the option to purchase the Property at any time for USD 1,500,000, plus a 3.0% net smelter returns royalty with increases to 4.0% should the price of gold exceed USD 2,000 per ounce. The Company, jointly with Bond, has the option to terminate the Lease at any time by providing 90 days written notice to the Lessor.
- i) Received \$13,543 and \$58,586 (USD 46,015) in accounts receivable from a company having a director in common with the Company (Note 21).
- j) Repaid \$61,668 (USD 49,529) in S2 Debenture principal.