



CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(Expressed in US Dollars)



Independent auditor's report

To the Shareholders of Excelsior Mining Corp.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Excelsior Mining Corp. and its subsidiaries (together, the Company) as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2018 and 2017;
- the consolidated statements of loss and comprehensive loss for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in equity for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

PricewaterhouseCoopers LLP

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



Other information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis for the year ended December 31, 2018.

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 identified above 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.

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 Mark Platt.

“(signed) PricewaterhouseCoopers LLP”

Chartered Professional Accountants

Vancouver, British Columbia
March 26, 2019

EXCELSIOR MINING CORP.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31
(Expressed in US Dollars)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
ASSETS			
Current assets			
Cash and cash equivalents		\$ 44,167,866	\$ 16,677,002
Receivables		177,046	70,735
Prepaid expenses		902,936	21,384
Materials and supplies		286,162	-
		<u>45,534,010</u>	<u>16,769,121</u>
Property, plant and equipment, net	4	19,525,779	17,859,495
Restricted cash	5	<u>3,304,390</u>	<u>222,790</u>
Total assets		<u>\$ 68,364,179</u>	<u>\$ 34,851,406</u>
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities	6	\$ 2,525,706	\$ 473,117
Amounts due to related parties	10	404,340	53,959
Restricted share units		249,368	-
		<u>3,179,414</u>	<u>527,076</u>
Derivative liabilities	7	9,782,295	-
Asset retirement obligation	8	<u>9,456,074</u>	<u>9,179,928</u>
Total liabilities		<u>22,417,783</u>	<u>9,707,004</u>
Equity			
Capital stock	9	88,915,883	57,210,709
Other equity reserves	9	6,909,702	5,678,311
Deficit		(49,050,193)	(36,915,622)
Accumulated other comprehensive loss		(828,996)	(828,996)
Total equity		<u>45,946,396</u>	<u>25,144,402</u>
Total liabilities and equity		<u><u>\$ 68,364,179</u></u>	<u><u>\$ 34,851,406</u></u>
Commitments	15		

Approved on March 25, 2019 and signed on behalf of the Board of Directors:

/signed/
Mark Morabito
Chairman of the Board

/signed/
Jim Kolbe
Chair of the Audit Committee

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

EXCELSIOR MINING CORP.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
FOR THE YEAR ENDED DECEMBER 31
(Expressed in US Dollars)

	<u>Note</u>	<u>2018</u>	<u>2017</u>
Expenses			
Johnson Camp holding and maintenance cost		\$ 3,450,124	\$ 2,749,495
Project advancement		3,396,267	2,002,832
Evaluation and permitting		1,525,940	1,042,079
Office and administration		1,217,203	962,041
Professional fees		1,214,122	897,631
Directors' and officers' fees	10	2,143,127	847,403
Investor relations		500,512	422,397
Share-based compensation	9	2,340,388	364,561
Regulatory fees		74,202	214,760
Depreciation		275,468	131,826
Other items			
Financing expense		251,532	183,827
Interest income		(280,197)	(74,694)
Foreign exchange (gain)/loss		82,476	(7,899)
Gain on sale of royalty	4	(3,782,500)	-
Gain on disposal of assets		(5,930)	-
Other income		(287,693)	(242,256)
Loss on derivative		19,530	-
Loss and comprehensive loss		\$ 12,134,571	\$ 9,494,003
Loss per common share:			
Basic and diluted		\$ 0.06	\$ 0.06
Weighted average number of common shares outstanding:			
Basic and diluted		208,545,607	168,111,425

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

EXCELSIOR MINING CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31
(Expressed in US Dollars)

	<u>2018</u>	<u>2017</u>
Cash provided by (used in):		
OPERATING ACTIVITIES		
Loss and comprehensive loss	\$ (12,134,571)	\$ (9,494,003)
Items not affecting cash:		
Depreciation	275,468	131,826
Accretion	251,532	117,827
Share-based compensation	2,284,144	364,561
Unrealized (gain)/loss on foreign exchange	82,476	(7,899)
Gain on sale of royalty	(3,782,500)	-
Loss on derivative	19,530	-
Net change in non-cash working capital:		
Receivables	(106,311)	5,205
Prepaid expenses	(881,552)	63,483
Materials and supplies	(286,162)	-
Accounts payable and accrued liabilities	1,202,466	(137,013)
Amounts due to related parties	350,381	11,059
Net cash (used) in operating activities	<u>(12,725,099)</u>	<u>(8,944,954)</u>
INVESTING ACTIVITIES		
Gunnison project construction	(628,266)	-
Purchase of equipment	(438,750)	(106,009)
Restricted cash	(3,081,600)	-
Royalty option exercise	3,782,500	-
Johnson Camp Mine acquisition	-	(2,200,000)
Net cash (used) in investing activities	<u>(366,116)</u>	<u>(2,306,009)</u>
FINANCING ACTIVITIES		
Stock option exercises	(1,140,103)	83,261
Issuance of common shares	32,243,145	17,404,412
Share issuance costs	(201,253)	(1,190,308)
Proceeds from copper stream financing, net	9,762,766	-
Net cash provided by financing activities	<u>40,664,555</u>	<u>16,297,365</u>
Increase in cash and cash equivalents	27,573,340	5,046,402
Effect of foreign exchange on cash and cash equivalents	(82,476)	7,899
Cash and cash equivalents, beginning of the year	<u>16,677,002</u>	<u>11,622,701</u>
Cash and cash equivalents, end of the year	<u>\$ 44,167,866</u>	<u>\$ 16,677,002</u>
Supplemental cash flow information		
Interest paid	-	66,000
Income taxes paid	-	-

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

EXCELSIOR MINING CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(Expressed in US Dollars)

	Capital Stock		Other Equity Reserves	Deficit	Accumulated Other Comprehensive Loss	Total
	Number of Common Shares	Amount				
Balance, December 31, 2016	167,363,952	\$ 40,889,361	\$ 5,337,733	\$ (27,421,619)	\$ (828,996)	\$ 17,976,479
Stock option exercises	350,000	107,244	(23,983)	-	-	83,261
Private equity placement	22,168,000	17,404,412	-	-	-	17,404,412
Share issue cost - cash	-	(1,190,308)	-	-	-	(1,190,308)
Share-based compensation	-	-	364,561	-	-	364,561
Loss for the year	-	-	-	(9,494,003)	-	(9,494,003)
Balance, December 31, 2017	189,881,952	\$ 57,210,709	\$ 5,678,311	\$ (36,915,622)	(828,996)	\$ 25,144,402
Balance, December 31, 2017	189,881,952	\$ 57,210,709	\$ 5,678,311	\$ (36,915,622)	(828,996)	\$ 25,144,402
Stock option exercises	5,162,688	(336,718)	(803,385)	-	-	(1,140,103)
Private equity placement	43,337,017	32,243,145	-	-	-	32,243,145
Share issue cost - cash	-	(201,253)	-	-	-	(201,253)
Share-based compensation	-	-	2,034,776	-	-	2,034,776
Loss for the year	-	-	-	(12,134,571)	-	(12,134,571)
Balance, December 31, 2018	238,381,657	\$ 88,915,883	\$ 6,909,702	\$ (49,050,193)	\$ (828,996)	\$ 45,946,396

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

EXCELSIOR MINING CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Expressed in US Dollars)

1. NATURE OF OPERATIONS

Excelsior Mining Corp. (the “Company”) was incorporated under the *Business Corporations Act* (British Columbia) on June 9, 2005 and was classified as a Tier 1 issuer on the TSX Venture Exchange. On February 2, 2017, the Company commenced trading on the Toronto Stock Exchange and de-listed from the TSX Venture Exchange and continues to trade under the symbol “MIN”. The address of the Company’s registered office is #1240 - 1140 West Pender Street, Vancouver, BC, Canada V6E 4G1.

The Company has commenced construction on the Gunnison Project and is currently continuing to fund the holding and maintenance costs of the Johnson Camp Mine (“JCM”). On November 30, 2018, the Company completed a \$75 million project financing package (the “Financing”) as discussed in note 7 of these consolidated financial statements and received initial gross proceeds of \$20 million.

The Company has been successful in obtaining significant equity and royalty financings over the last few years and intends to continue financing its future requirements through a combination of equity, debt and/or other arrangements. However, there is no assurance that the Company will be able to obtain such financings in the future or obtain them on favorable terms.

2. BASIS OF PRESENTATION

a. Basis of preparation and consolidation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on a historical cost basis, except for any financial instruments measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

All dollar figures are expressed in United States dollars unless otherwise indicated. Canadian dollars are expressed as “CAD\$”. Certain comparative amounts in the financial statements have been changed to conform to the presentation of the current year financial statements. These changes have no impact on the net loss, deficit or cash flows for the periods as previously reported.

b. Principles of Consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries. A subsidiary is an entity over which the Company has control. The Company controls an entity when the Company is exposed to, or has the rights to, variable returns from the Company’s involvement with the entity and has the ability to affect those returns through the Company’s power over the entity.

The results of the Company’s subsidiaries are included in the consolidated financial statements from the date that control commences until the date the control ceases. All intercompany transactions and balances have been eliminated.

Details of Company’s subsidiaries are as follows:

Name	Place of Incorporation	Interest %	Principal activity
Excelsior Mining Arizona, Inc. (“Excelsior Arizona”)	Arizona, United States	100%	Exploration, evaluation and development of mineral property interests
Excelsior Mining JCM, Inc. (“Excelsior JCM”)	Arizona, United States	100%	Owner of copper production facilities

c. Critical Accounting Estimates and Judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgment and assumptions that affect the reported amounts of assets, liabilities, shareholders' equity, and the disclosure of contingent assets and liabilities, as at the date of the financial statements, and expenses for the periods reported.

Critical Judgments

The Company applied judgment in determining that the stream arrangement, in its current status, is a derivative liability for accounting purposes. This judgment will be monitored as facts and circumstances change such as the exercise or expiry of the expansion and buyback options and the relationship of the metal deliverable under the arrangement to the Company's actual production.

Key Sources of Estimation Uncertainty

Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant.

Significant estimates made by management affecting the consolidated financial statements include:

Useful Life and Residual Value of Equipment

Equipment is depreciated over its estimated useful life. Estimated useful lives are determined based on operating experience, current facts, and take into consideration the anticipated physical life of the asset, the potential for technological obsolescence, and potential new regulations. Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation expense and no assurance can be given that actual useful lives and residual values will not be significantly different from current assumptions.

Stream Obligation

The carrying value of the stream obligation represents management's best estimate of the fair value of the arrangement. The fair value incorporates estimates of the Company's construction and expansion plans, production volumes, copper prices, discount rates and applicable tax considerations.

Asset Retirement Obligation

The Company's provision for reclamation and closure cost obligations represent management's best estimate of the present value of the future cash outflows required to settle the liability. The provision reflects estimates of future costs directly attributable to remediating the liability, inflation, assumptions of risks associated with the future cash outflows, and the applicable risk-free interest rates for discounting future cash outflows. Changes in the factors above can result in a change to the provision recognized by the Company. To the extent the carrying value of the related mining property is not increased above its recoverable amount, changes to reclamation and closure cost obligations are recorded with a corresponding change to the carrying amount of related mining properties.

Income Taxes

The Company is subject to income taxes in the United States. Significant judgment is required to determine the provision for income taxes. There are assumptions and uncertainties for which the ultimate tax determination is uncertain. The Company recognizes tax-related assets and liabilities based on the Company's current understanding of tax laws as applied to the Company's circumstances. The final tax outcome could be materially different from tax amounts initially recorded and such differences will impact the current and deferred tax provisions in the period in which the tax outcome is determined. In addition, the tax treatment of the initial proceeds received from Triple Flag involves significant judgment.

3. SIGNIFICANT ACCOUNTING POLICIES

a. Financial Instruments and measurement

Financial assets – Classification

Financial assets are classified at initial recognition based on the applicable measurement model: amortized cost, fair value through profit or loss (“FVTPL”), or fair value through other comprehensive income (“FVOCI”). The classification depends on the Company’s business model for managing the financial assets and the contractual terms of the cash flows. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (loss) (“OCI”). For investments in equity instruments that are not held for trading, this will depend on whether the Company has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

At initial recognition, the Company measures a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss.

Changes to IFRS 9, *Financial Instruments*, was adopted by the Company on January 1, 2018. See section 1 below of this note 3, “New Accounting Pronouncements” for the effects on the Company of the adoption.

Financial liabilities

Financial liabilities are designated as either: (i) FVTPL; or (ii) other financial liabilities. 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 balance sheet subsequent to inception and how changes in value are recorded. Accounts payable are classified as other financial liabilities and carried on the balance sheet at amortized cost.

Derivative instruments, including embedded derivatives in financial liabilities or non-financial contracts are recorded at FVTPL and, accordingly, are recorded on the consolidated statement of financial position at fair value. Fair values for derivative instruments are determined using valuation techniques, with assumptions based on market conditions existing at the statement of financial position date or settlement date of the derivative. The Company’s stream obligation and foreign currency warrants to purchase common shares are classified as derivative liabilities.

b. Material and supplies

Materials and supplies inventories are valued at the lower of weighted average cost and net realizable value, less any allowances for obsolescence. Replacement costs of materials and spare parts are generally used as the best estimate of net realizable value.

c. Property, plant and equipment

Property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The initial cost of an asset is comprised of its purchase price or construction cost and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the reclamation of the asset. The purchase price or construction cost is the fair value of consideration given to acquire the asset.

Depreciation of property, plant and equipment commences when the asset has been fully commissioned and is available for its intended use.

Wellfield, site infrastructure and other tangible assets, including the solvent extraction-electrowinning plant, roads, pipelines and transmission lines will be depreciated using a unit-of-production method, which is determined each period based on copper pounds produced over the estimated proven and probable copper reserves of the orebody unless the useful life of the asset is less than the life of the mine.

EXCELSIOR MINING CORP.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2018
(Expressed in US Dollars)

Depreciation of other site assets, including vehicles, mobile equipment, and buildings are calculated using the straight-line method to allocate the initial cost over their estimated useful lives, as follows:

<u>Asset Class</u>	<u>Estimated useful life</u>
Vehicles	2-5 years
Mobile equipment	2-5 years
Buildings	10-25 years

Depreciation of office equipment and software is based on the declining balance method at various depreciation rates ranging from 20% to 45% over their estimated useful lives.

Equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

d. Construction in progress

Construction in progress costs recorded for assets under construction are capitalized as construction in progress. On completion, the cost of construction is transferred to the appropriate category of mineral properties, plant and equipment. No depreciation is recorded until the assets are fully commissioned and available for their intended use.

e. Exploration and Evaluation Assets

Costs related to the acquisition of exploration and evaluation assets are capitalized. Costs incurred for the exploration and evaluation of mineral properties, prior to the establishment of commercial viability and technical feasibility, are recognized in profit or loss as incurred. Exploration and evaluation assets are assessed for impairment indicators at the end of each reporting period.

Any option payments or proceeds from the sale of royalty interests received by the Company are credited to the capitalized cost of the related exploration and evaluation asset. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the period received.

Once the technical feasibility and commercial viability of the extraction of mineral reserves or resources from a mineral property has been determined, subsequent expenditures are classified as mineral property development costs within mineral properties, plant and equipment and are carried at cost until the properties to which the expenditures are related to are sold, abandoned or determined by management to be impaired in value.

The establishment of technical feasibility and commercial viability of a mineral property is assessed based on a combination of factors, including:

- The extent to which mineral reserves or mineral resources as defined in National Instrument 43-101 (“NI 43-101”) have been identified through a feasibility study or similar document;
- The results of optimization studies and further technical evaluation carried out to mitigate project risks identified in the feasibility study;
- The status of environmental permits; and
- The status of mining leases or permits.

f. Impairment of Long-lived Assets

At the end of each reporting period, the Company's long-lived assets are reviewed to determine whether there are any indications that those assets may be impaired. If such indications exist, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of an asset's fair value less costs to sell, and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future pretax cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than the 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. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

g. Asset Retirement Obligation ("ARO")

The Company recognizes an estimate of the liability associated with an ARO in the financial statements at the time the liability is incurred. The estimated net present value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related assets. The capitalized amount is amortized over the estimated life of the assets. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is recognized in profit or loss for the period. The ARO can also increase or decrease due to changes in the original estimated undiscounted costs, or changes in the timing of these expenditures. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded.

h. Income Taxes

Income tax expense or benefit for the reporting period includes current and deferred income taxes. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax paid or payable in respect of previous years.

Deferred income tax is recognized using the liability method on temporary differences arising between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax basis of assets and liabilities. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting or taxable loss; nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the year that includes the date of enactment or substantive enactment of change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

The estimation of income taxes includes evaluating the recoverability of deferred tax assets and liabilities based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets and liabilities will not be realized. The ultimate realization of deferred tax assets and liabilities is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets or liabilities, and deferred income tax provisions or recoveries could be affected.

i. Share-Based Compensation Transactions

The Company grants stock options to buy common shares of the Company to directors, officers, employees, and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options. A fair value measurement for each grant is determined using an option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as share-based compensation expense. This includes a forfeiture estimate, which is revised as necessary based on actual forfeiture rates. The Other equity reserve account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to capital stock.

Restricted Share Units (“RSU”) issued to employees and directors require the Company to withhold applicable income tax on exercised and settled amounts with the tax authorities. The Company’s RSU policy allows for a net settlement arrangement, and RSU are classified in their entirety as cash-settled share-based payment transactions.

j. Warrants

The Company recognizes the fair value of all warrants issued, recording the amount as an expense, an addition to a related asset, or a cost of issue of shares, as appropriate. Warrants are measured at the time of issue using an option-pricing model to determine their fair value. Warrants that are equity instruments are not remeasured subsequent to grant unless the terms and conditions of the warrants are modified. Warrants denominated in a currency other than the functional currency of the Company are considered to be a derivative and are recorded at fair value through profit and loss.

k. Foreign Currency Translation

Items included in the financial statements of the Company and its wholly-owned subsidiaries, Excelsior Arizona, and Excelsior JCM, are measured using the currency of the primary economic environment in which the entity operates (the “functional currency”). The functional currency of the Company and its subsidiaries is the United States Dollar.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at exchange rates of monetary assets and liabilities denominated in currencies other than an entity’s functional currency are recognized in the consolidated statement of loss and comprehensive loss.

l. Loss Per Share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share is determined by adjusting the loss attributable to common shareholders, and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares, except when the adjustment is anti-dilutive.

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset’s carrying amount does not exceed the carrying amounts that would have been determined, net of depreciation, if no impairment loss had been recognized.

m. New Accounting Pronouncements

The Company adopted the amendments to IFRS 2, Share-based Payments (“IFRS 2”) effective January 1, 2018 which allows an entity to classify RSU transactions with a net settlement feature in their entirety as an equity-settled share-based payment transaction. The Company first adopted an RSU program in 2018 so the amended standard had no impact on the Company’s financial position or results.

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The Company adopted IFRS 9, Financial Instruments (“IFRS 9”) effective January 1, 2018 in accordance with the transitional provisions of the standard. IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities and supersedes the guidance relating to the classification and measurement of financial instruments in IAS 39, Financial Instruments: Recognition and Measurement (“IAS 39”). IFRS 9 requires financial assets to be classified into three measurement categories: those measured at fair value through profit and loss, at fair value through other comprehensive income, and at amortized cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity’s own credit risk is recorded in other comprehensive income rather than in net earnings.

IFRS 16, Leases

On January 13, 2016, the IASB issued IFRS 16, Leases, according to which, all leases will be on the balance sheet of lessees, except those that meet the limited exception criteria. Respectively, rent expense is to be removed and replaced by the recording of depreciation and finance expenses. The standard is effective for annual periods beginning on or after January 1, 2019. The Company does not expect the adoption of this new standard to have any significant impact on its financial results.

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4. PROPERTY, PLANT AND EQUIPMENT

Details are as follows:

	Land	Plant	Asset Retirement Obligation	Vehicles & Mobile Equipment	Computer Software and Equipment	Construction in Progress	Total
Cost							
At January 1, 2017	93,798	11,941,392	918,954	115,440	355,986	-	13,425,570
Additions	-	74,102	-	-	31,907	-	106,009
ARO Change in Estimate	-	-	4,761,267	-	-	-	4,761,267
At December 31, 2017	<u>93,798</u>	<u>12,015,494</u>	<u>5,680,221</u>	<u>115,440</u>	<u>387,893</u>	<u>-</u>	<u>18,292,846</u>
Accumulated Depreciation							
At January 1, 2017	-	-	-	(57,720)	(243,805)	-	(301,525)
Depreciation	-	-	(47,964)	(57,720)	(26,142)	-	(131,826)
At December 31, 2017	<u>-</u>	<u>-</u>	<u>(47,964)</u>	<u>(115,440)</u>	<u>(269,947)</u>	<u>-</u>	<u>(433,351)</u>
Net carrying amount	<u>93,798</u>	<u>12,015,494</u>	<u>5,632,257</u>	<u>-</u>	<u>117,946</u>	<u>-</u>	<u>17,859,495</u>
Cost							
At January 1, 2018	93,798	12,015,494	5,680,221	115,440	387,893	-	18,292,846
Additions	-	226,251	-	104,456	108,043	1,478,388	1,917,138
ARO Change in Estimate	-	-	24,614	-	-	-	24,614
Disposal	-	-	-	(25,538)	-	-	(25,538)
At December 31, 2018	<u>93,798</u>	<u>12,241,745</u>	<u>5,704,835</u>	<u>194,358</u>	<u>495,936</u>	<u>1,478,388</u>	<u>20,209,060</u>
Accumulated Depreciation							
At January 1, 2018	-	-	(47,964)	(115,440)	(269,947)	-	(433,351)
Depreciation	-	(11,430)	(184,772)	(44,835)	(34,431)	-	(275,468)
Disposal	-	-	-	25,538	-	-	25,538
At December 31, 2018	<u>-</u>	<u>(11,430)</u>	<u>(232,736)</u>	<u>(134,737)</u>	<u>(304,378)</u>	<u>-</u>	<u>(683,281)</u>
Net carrying amount	<u>93,798</u>	<u>12,230,315</u>	<u>5,472,099</u>	<u>59,621</u>	<u>191,558</u>	<u>1,478,388</u>	<u>19,525,779</u>

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Johnson Camp Mine (“JCM”)

On October 8, 2015, the Company entered into a definitive Asset Purchase Agreement (the “Purchase Agreement”) to acquire the assets of Nord Resources Corporation (“Nord”), as they relate to the Johnson Camp Mine (the “Johnson Camp Transaction”). Under the terms of the Purchase Agreement, the Company agreed to acquire, through the court-appointed receiver (the “Receiver”), the Johnson Camp Mine including all fee title property, all patented and unpatented mining claims, all improvements, equipment, certificates of deposit, reports and records. The Company agreed to acquire the assets and certain liabilities of Nord’s Johnson Camp Mine for total consideration of \$8.4 million under the following terms:

- \$5.2 million due on or prior to closing (“Initial Payment”);
- \$1.0 million due on or before December 31, 2016 (“First Instalment”); and
- \$2.2 million due on or before December 31, 2017 (“Final Instalment”).

The closing date of the transaction was December 14, 2015.

As at December 31, 2017, the Company paid the Initial, First and Final Instalments totaling \$8.4 million. All of the Company’s JCM acquisition obligations related to the secured interest-bearing promissory note have been met.

Share Purchase and Royalty Agreement

On July 19, 2013, the Company entered into a Share Purchase and Royalty Option Agreement (the “Callinan Agreement”) with Callinan Royalties Corporation (“Callinan”), now a wholly-owned subsidiary of Altius Minerals Corporation (“Altius”). Under the terms of the Callinan Agreement, Callinan was to invest CAD\$1,000,000 in the Company by way of a non-brokered private placement and up to a further CAD\$21,000,000 through the purchase of a staged gross revenue royalty (“GRR”) on the Gunnison Project.

Under the terms of the Callinan Agreement, Callinan made an initial investment as follows:

- Purchased 6,250,000 common shares of the Company at a price of CAD\$0.16 per common share for aggregate consideration of CAD\$1,000,000 (cash was received, and common shares were issued on July 31, 2013); and
- Concurrently paid CAD\$2,000,000 to the Company in exchange for a 0.5% GRR (the “Initial GRR”).

On July 29, 2014, Callinan exercised its first royalty option under the Callinan Agreement. As a result, Callinan paid the Company CAD\$3,000,000 in return for an additional 0.5% GRR on the Gunnison Project. Combined with the initial GRR that Callinan acquired in July 2013, Callinan held a 1.0% GRR on the Gunnison Project as of July 2014.

Callinan also had the option to acquire an additional GRR on the Gunnison Project based on a construction option, as detailed below.

Development Milestones

1% of the additional GRR was staged and based upon the Company meeting specific development milestones. By the second quarter of 2016, the Company had achieved both development milestones, however Callinan did not exercise its option to acquire the associated additional GRR. As a result, there are no remaining royalty options associated with the development milestones.

Construction Option

The construction option gives Callinan the right to buy up to a 1% GRR for CAD\$10,000,000 following completion of the feasibility study, receipt of all required permits and the Company securing a firm commitment for 50% of the required capital required for mine construction. One half (0.5%) of the construction option has vested, while one half (0.5%) of the construction option can no longer vest because Callinan did not exercise its options to acquire additional GRR based on the above two development milestones. Therefore, the construction option was reduced to 0.5% GRR for CAD\$5,000,000. The exercise price of the construction option may be adjusted if the final design capacity of the plant is lower than 80 million pounds of copper per year.

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Altius is successor in interest to Callinan Royalties Corporation. On October 1, 2016, Altius Royalties Corp. and Callinan Royalties Corporation were amalgamated to form Altius.

On December 5, 2018, Altius exercised the final royalty option under the Callinan Agreement. As a result, Altius paid the Company CAD\$5,000,000 in return for an additional 0.5% GRR on the Gunnison Project. Combined with the initial GRR that Altius acquired in July 2014 and August 2013, Altius holds a 1.625% GRR on the Gunnison Project while Plant Capacity is less than 75 million pounds of copper per year and 1.5% while the Plant Capacity is greater than or equal to 75 million pounds of copper per year. The purchase of the royalty resulted in a gain of \$3,782,500.

5. RESTRICTED CASH

As of December 31, 2018, the Company has deposited cash of \$3,304,390 (2017 - \$222,790) as collateral to secure the issuance of bonds. Restricted cash payments of \$3,081,600 in 2018 included \$444,000 for a reclamation bond as part of the Mined Land Reclamation Plan for the JCM and \$2,637,600 for the Class III Underground Injection Control Area Permit, required by the United States Environmental Protection Agency.

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2018	December 31, 2017
Trade payables	283,451	197,086
Accrued liabilities	2,040,771	104,525
Employee-related accruals	190,750	171,506
Other payables	10,734	-
	<u>\$ 2,525,706</u>	<u>\$ 473,117</u>

Trade payables include the Company's obligations to suppliers of goods or services acquired on trade credit for goods received or services provided that have been invoiced but not yet paid out in cash. Accrued liabilities and employee-related accruals include estimated amounts for goods or services received but not yet invoiced by the supplier, as well as obligations that increase throughout the year and are settled at points in time, such as property taxes and employee bonus payments.

7. DERIVATIVE LIABILITIES

Project Financing

On October 30, 2018 the Company entered into an agreement for a \$75 million project financing package (collectively, the "Financing") with Triple Flag Mining Finance Bermuda Ltd. ("Triple Flag") for the purposes of developing the Gunnison Project. The Financing consists of a \$65 million copper metal stream (the "Stream") and a concurrent \$10 million private placement of common shares of Excelsior (the "Equity Placement"). The closing of the Financing occurred on November 30, 2018 (the "Closing Date") and resulted in Excelsior receiving initial gross proceeds of \$20 million. This amount consisted of the initial \$10 million of the \$65 million deposit (the "Stage 1 Upfront Deposit") and \$10 million of proceeds from the Equity Placement. The balance of the Stage 1 Upfront Deposit will be provided in instalments at the request of Excelsior as it expands or allocates previously received funds for the construction of the Gunnison Project. In conjunction with the arrangement, Excelsior issued to Triple Flag 3.5 million five-year common share purchase warrants, under a five-year term beginning on the Closing Date, entitling Triple Flag to purchase 3.5 million Excelsior common shares at a strike price of CAD\$1.50 per share issued.

Under the terms of the metals purchase and sale agreement (the "Stream Agreement") between Triple Flag and Excelsior and its subsidiaries, Excelsior Arizona and Excelsior JCM, Triple Flag has committed to fund a deposit of \$65 million against the future sale and delivery by Excelsior Arizona of a percentage of the refined copper production from the Gunnison Project. Excelsior will sell to Triple Flag a percentage of refined copper at a price equal to 25% of the copper spot price. The exact percentages of copper production to be sold to Triple Flag varies according to the total production capacity, based on a sliding scale.

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The percentages applicable at certain projection levels are detailed in the table below.

	Stage 1 (25 M lbs/yr)	Stage 2 (75 M lbs/yr)	Stage 3 (125 M lbs/yr)
Stage 1 Upfront Deposit	16.5%	5.75%	3.5%

Following a decision by Excelsior to expand the production capacity, Triple Flag has the option to invest a further \$65 million in exchange for an increase in its entitlement to copper under the Stream (“Expansion Option”). Upon completion of an expansion, Excelsior has the option to reduce the amount of the Stream by 50% by making a buy-down payment to Triple Flag (the “Buy-Down Payment”). The Buy-Down Payment is calculated as an amount that provides Triple Flag with an internal rate of return of 15% on 50% of the Stage 1 Upfront Deposit and, if applicable, 15% on 50% of the Expansion Upfront Deposit [in each case after evaluating the value of Stream deliveries (net of the 25% purchase price payment for such deliveries) made to Triple Flag prior to its payment].

The table below shows the range of percentage of production to be purchased by Triple Flag based on specified production levels based on various scenarios that include Triple Flag’s Expansion Option and Excelsior’s Buy-Down Right. Actual amounts are calculated within the range, based on the proven production history.

Scenario Description	Stage 1 (25 M lbs/yr)	Stage 2 (75 M lbs/yr)	Stage 3 (125 M lbs/yr)
Stage 1 Upfront Deposit + Expansion Option	16.5%	11.0%	6.6%
Stage 1 Upfront Deposit + Expansion Option + Buy-Down Payment	16.5%	5.5%	3.3%
Stage 1 Upfront Deposit + Buy-Down Payment	16.5%	2.875%	1.75%

The stream obligation is recorded at fair value at each statement of financial position date as the Company has determined that the stream obligation is a derivative liability carried at FVTPL.

The stream obligation was valued using Monte Carlo simulation valuation models. The key inputs used by the Monte Carlo simulation in generating future copper prices for purposes of valuing the stream obligations include: the copper forward curve based on Comex futures, long-term copper volatility at 24%, risk-free rate of return at 2.77% and tax rate at 30%. The valuation of the stream obligations also requires estimation of the Company’s nonperformance or credit risk, and the Company’s expansion plans, and anticipated production schedule of copper pounds delivered over the life of mine

As of December 31, 2018, the Company revalued the Stream and the 3.5 million common share purchase warrants independently resulting in a fair value of the Stream of \$8,926,949 and the common share purchase warrants of \$855,346.

In conjunction with the Stream, Excelsior also completed an Equity Placement to raise proceeds of \$10 million (net of applicable fees and expenses). The Equity Placement consisted of the issuance to Triple Flag of an aggregate of 13,818,977 Excelsior common shares at an aggregate subscription price of \$10 million, or equal to approximately CAD\$0.95 per share at then-current exchange rates.

8. ASSET RETIREMENT OBLIGATION

The Company’s asset retirement obligation (“ARO”) represents management’s best estimate of the present value of costs that are expected to be incurred for mine closure and reclamation and rehabilitation costs for the JCM and the Gunnison Project. Based on the current projected mine life of the Gunnison Project, these costs and activities are not expected to begin until approximately 30 years after the start of construction on the Gunnison Project. During the fourth quarter of 2018, the Company reviewed the closure requirements under existing permits and the assumptions used in the present value calculation and adjusted the obligation to \$9,456,074 as of December 31, 2018. The update was prepared by management and an independent third party and resulted in a net increase of \$276,146 from the ARO at December 31, 2017 of \$9,179,928.

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As of December 31, 2018, the estimated undiscounted JCM reclamation obligation is \$11,923,326 (2017 - \$11,095,400) and the estimated undiscounted Gunnison Project reclamation obligation is \$53,580 (2017 - \$nil). In addition to the undiscounted cost estimates, the primary assumptions that affect the present value calculation are the inflation rate and the discount rate. For the update prepared as of December 31, 2018, the Company used an inflation rate of 2.24% (2017 – 2.11%) and a discount rate of 3.02% (2017 – 2.74%) in calculating the present value of the obligation. The inflation rate is based on current inflation indices and the discount rate is based on the 30-year treasury bond index. During the year, the Company records accretion expense to recognize the increase in the present value of the obligation over time.

During the year ended December 31, 2018 the Company recorded \$251,532 of accretion expense related to the asset retirement obligation (2017 - \$117,827). Changes in the ARO for the years ended December 31, 2018 and 2017 are summarized below.

<u>Asset Retirement Obligation</u>	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Balance, beginning of period	\$ 9,179,928	\$ 4,300,834
Addition	41,650	-
Change in estimate	(17,036)	4,761,267
Accretion expense	251,532	117,827
Balance, end of period	\$ 9,456,074	\$ 9,179,928

9. CAPITAL STOCK AND OTHER EQUITY RESERVES

Common Shares

The authorized share capital of the Company is comprised of an unlimited number of common shares with no par value. As of December 31, 2018, there were 238,381,657 common shares outstanding. During the year ended December 31, 2018 a total of 48,499,705 common shares were issued, summarized as follows:

- On January 19, 2018, the Company closed a private placement which resulted in the Company issuing 16,467,200 common shares, for gross proceeds of \$12,800,000.
- On November 30, 2018, the Company issued 13,818,977 common shares to Triple Flag for the Equity Placement, for gross proceeds of \$10,000,000.
- On December 5, 2018, the Company issued 13,050,840 common shares to Greenstone Resources L.P (“Greenstone”) for the Greenstone Financing resulting in gross proceeds of \$9,443,145. Prior to this transaction, Greenstone held 100,878,097 common shares of Excelsior (representing 48.56% of the Company's then-current issued and outstanding common shares). On December 6, 2018, following the closing of this transaction, Greenstone owned a total of 113,928,937 common shares of Excelsior, which maintained their ownership at approximately 48.56% of Excelsior's issued and outstanding common shares.
- During the year ended December 31, 2018, the Company issued a total of 5,162,688 common shares from stock options exercised.

Share purchase warrants

On November 30, 2018, the Company issued 3.5 million warrants to Triple Flag pursuant to the Financing at an exercise price of CAD\$1.50 per share and exercisable until November 30, 2023. The warrants are exercisable into 3.5 million common shares of the company. The warrants are accounted for as a derivative liability.

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As of December 31, 2018, the Company recorded the fair value of the warrants issued based on a Black-Scholes-Merton option-pricing model with the following assumptions:

- Underlying Share Price (CAD\$ 0.85)
- Valuation Date (December 31, 2018)
- Maturity Date (November 30, 2023)
- Strike Price (CAD\$ 1.50)
- Volatility (60%)

Stock Options

The Company's stock option plan (the "Plan") provides for the grant of incentive stock options to employees, consultants, officers, and directors of the Company. On June 28, 2018 shareholders of the Company approved an amended Plan. The former Plan allowed for a fixed number of shares authorized for issuance of 17,966,400. The amended Plan reserves for issuance, along with the Company's other Security-Based Compensation Plans a maximum of 10% of the issued and outstanding Common Shares at the time of a grant of options. Options granted under the Plan have a maximum term of ten years. The exercise price of the options is determined by the Board of Directors and is not less than the closing price of the common shares on the last trading day prior to the date the options are granted. The vesting terms are at the Board of Directors' discretion.

The Plan is an evergreen plan which provides that if any option has been exercised, then the number of common shares into which such option was exercised shall become available to be issued upon the exercise of options subsequently granted under the Plan. The Plan will operate in conjunction with the Restricted Share Unit Plan (the "RSU Plan") and Performance Share Unit Plan (the "PSU Plan"), which were also approved by the Company's shareholders on June 28, 2018. The amended 2018 Plan, RSU Plan and PSU Plan are collectively referred to as the "Security-Based Compensation Plans".

The following is a summary of stock option activity for the years ended December 31, 2018 and 2017:

Stock Options	Number of Options	Weighted Average Exercise Price (CAD\$)
Outstanding, December 31, 2016	15,876,000	\$ 0.22
Granted	1,100,000	\$ 0.79
Forfeited	(140,000)	\$ 0.32
Exercised	(350,000)	\$ 0.23
Outstanding, December 31, 2017	16,486,000	\$ 0.26
Granted	5,780,000	\$ 1.04
Exercised	(9,936,000)	\$ 0.31
Outstanding, December 31, 2018	12,330,000	\$ 0.69
Exercisable, December 31, 2018	6,362,500	\$ 0.35

On December 6, 2018, the Company announced the implementation of a stock option exercise program (the "Program") for the block of stock options that were due to expire on December 31, 2018. These stock options were originally issued from 2010 to 2012 and were held by the option-holders for between 6 and 8 years. The intent of the Program was to minimize any impact on the Company's share price by avoiding the sale of a large block of shares within a short time period. The Program was also set-up to minimize shareholder dilution resulting from the exercise of stock options. The Program involved two steps. First, option-holders completed a "net exercise" whereby option-holders received a net number of shares by reducing the amount they would otherwise be issued to cover the exercise price. As a second step, the Company repurchased from each option-holder (at the market price) a sufficient number of shares to cover the income taxes of the option-holders associated with the exercise. During December 2018, the Program resulted in a total of 1,630,727 shares being repurchased by the Company and cancelled, and a final net amount of 3,407,479 shares being issued to option-holders. The Program was completed without any shares being sold in the market to cover exercise price or tax obligations.

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During the year ended December 31, 2018, a total of 9,936,000 stock options were exercised, of which 4,773,312 stock options were exercised in exchange for a substituted right or repurchased and cancelled under the stock option exercise program, resulting in the net issuance of 5,162,688 common shares.

As at December 31, 2018, the following stock options were outstanding and exercisable:

<u>Outstanding</u>	<u>Exercisable</u>	<u>Exercise Price</u>	<u>Remaining life (years)</u>	<u>Expiry Date</u>
500,000	500,000	CAD\$ 0.26	0.80	October 20, 2019
250,000	250,000	CAD\$ 0.25	0.92	December 1, 2019
100,000	100,000	CAD\$ 0.30	1.64	August 19, 2020
4,600,000	4,600,000	CAD\$ 0.23	1.96	December 16, 2020
200,000	150,000	CAD\$ 0.77	3.09	January 31, 2022
200,000	150,000	CAD\$ 0.83	3.40	May 24, 2022
200,000	100,000	CAD\$ 1.18	3.61	August 10, 2022
200,000	100,000	CAD\$ 1.20	3.73	September 21, 2022
300,000	150,000	CAD\$ 1.15	3.97	December 19, 2022
200,000	50,000	CAD\$ 1.15	4.07	January 24, 2023
300,000	75,000	CAD\$ 1.11	4.09	February 1, 2023
100,000	25,000	CAD\$ 1.25	4.15	February 22, 2023
150,000	37,500	CAD\$ 1.29	4.27	April 9, 2023
300,000	75,000	CAD\$ 1.43	4.37	May 15, 2023
4,530,000	-	CAD\$ 1.00	4.84	November 2, 2023
200,000	-	CAD\$ 0.94	4.94	December 7, 2023
<u>12,330,000</u>	<u>6,362,500</u>			

The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yield, volatility factors of the expected market price of the Company's common shares, forfeiture rate, and expected life of the options. The Company recognized share-based compensation costs of \$2,034,776 (December 31, 2017 - \$364,561) in relation to stock options granted and vested during the year ended December 31, 2018.

The following assumptions were used for the Black-Scholes valuation of stock options granted during the year ended December 31, 2018 and 2017:

	<u>December 31, 2018</u>	<u>December 31, 2017</u>
Risk-free interest rate	2.09%	1.45%
Expected life of options	5.0 years	5.0 years
Annualized volatility	121.0 %	119.7%
Dividend yield	0%	0%

Restricted Share Units

The Company's RSU Plan, adopted on June 28, 2018, provides for the grant of restricted shares to employees, consultants, officers, and directors of the Company. An individual restricted share unit will have the same value as one common share. The number of RSUs awarded, and its associated vesting terms, are determined at the discretion of the Board of Directors. The maximum aggregate number of common shares issuable to participants at any time pursuant to the RSU Plan, together with all other Security-Based Compensation Plans of the Company, may not exceed 10% of the currently issued and outstanding common shares of the Company at the time of a grant of the RSU.

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Upon each vesting date, participants receive the issuance of common shares from treasury equal to the number of RSUs vesting, or a cash payment equal to the number of vested RSUs multiplied by the fair market value of a common share, calculated as the closing price of the common shares on the TSX for the trading day immediately preceding such payment date; or a combination thereof. The RSU Plan is considered a cash-settled award plan, therefore, the RSU Plan is classified as a liability, and is measured at fair value on the grant date and is subsequently adjusted for changes in fair value at each reporting date until settlement. The fair value of RSUs is estimated based on the quoted market price of the company's common shares.

During the year ended December 31, 2018, the Company granted a total of 550,000 RSUs with vesting period varying from 1 to 17 months.

A summary of the activity related to the Company's RSUs is provided below.

<u>Restricted Share Units</u>	
Balance, at December 31, 2017	-
Granted	550,000
Vested	(75,000)
Balance, at December 31, 2018	<u>475,000</u>

During the year ended December 31, 2018, the Company recorded compensation costs related to RSUs in the amount of \$305,612 (2017 - nil), which were classified as share-based compensation costs.

Performance Share Units

The Company's PSU Plan adopted on June 28, 2018 provides for the grant of restricted shares to officers, employees, and consultants of the Company. An individual performance share unit will have the same value as one common share. The number of PSUs awarded, and its associated vesting terms, are determined at the discretion of the Board of Directors. The maximum aggregate number of common shares issuable to participants at any time pursuant to the PSU Plan, together with all other Security-Based Compensation Plans of the Company, may not exceed 10% of the currently issued and outstanding common shares of the Company at the time of a grant of the PSU.

Upon each vesting date, participants receive the issuance of common shares from treasury equal to the number of PSUs vesting, or a cash payment equal to the number of vested PSUs multiplied by the fair market value of a common share, calculated as the closing price of the common shares on the TSX for the trading day immediately preceding such payment date; or a combination thereof. On the basis that it is the Company's option and intent to settle any PSU redemptions by the issuance of common shares from treasury, the PSU Plan is considered an equity-settled award plan.

As of December 31, 2018, the Company had not granted any PSUs.

10. RELATED PARTY TRANSACTIONS

Related parties and related party transactions are summarized below:

Key Management Personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company. The Company has determined that key management personnel consists of the Company's Board of Directors and corporate officers, including the Company's Chief Executive Officer, Chief Operating Officer and Senior Vice President & Chief Financial Officer.

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Remuneration attributed to key management personnel is summarized as follows:

	Year ended December 31,	
	2018	2017
Salaries, fees and benefits	\$ 2,174,531	\$ 1,168,130
Share-based compensation	1,796,363	13,913
Total	\$ 3,970,894	\$ 1,182,043

Salaries, fees and benefits to key management includes all salaries, bonuses, fees, and other employment benefits, pursuant to contractual employment agreements, consultancy or management services arrangements.

Other Related Parties

King & Bay West Management Corp, ("King & Bay") is an entity owned by Mark Morabito, the Chairman of the Company, which employs or retains certain officers and personnel of the Company. King & Bay provides legal, regulatory and corporate secretarial services to the Company. These services are provided to the Company on an as-needed basis and are billed based on the cost or value of the services provided to the Company. The amounts shown in the table below represent amounts paid to King & Bay for the services of King & Bay personnel and for overhead and third-party costs incurred by King & Bay on behalf of the Company.

Kinley Exploration LLC ("Kinley") is an entity owned by Colin Kinley, a Director of the Company. Kinley provides certain technical services regarding Project preparation and development to the Company. These services are provided to the Company on an as-needed basis and are billed based on the cost or value of the services provided to the Company. The amount shown in the table below represents amounts paid to Kinley for the services of Kinley personnel and for out-of-pocket reimbursable expenses incurred by Kinley on behalf of the Company.

Transactions entered into with related parties other than key management personnel included the following:

	Year ended December 31,	
	2018	2017
King & Bay	\$ 531,873	\$ 416,667
Kinley	\$ 127,150	\$ 130,500

As of December 31, 2018, amounts accrued and due to key management personnel and other related parties include the following:

- Corporate officers - \$392,575 (December 31, 2017 - nil)
- King & Bay - \$11,765 (December 31, 2017 - \$44,959)
- Kinley - \$nil (December 31, 2017 - \$9,000)

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11. INCOME TAXES

The 2018 tax reform act was enacted in the United States in December 2017. This act took effect January 1, 2018 with one of the significant changes being a reduction to the corporate income tax rate from 35% to 21%.

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

	December 31, 2018	December 31, 2017
(Loss) for the year	\$ (12,134,571)	\$ (9,494,003)
Combined federal and state income tax rates	24.87%	38.19%
Income tax recovery based on the above rate	\$ (3,017,989)	\$ (3,625,285)
Increase due to:		
Non-deductible costs	9,341	3,189
Income tax benefits not recognized	3,008,649	3,622,096
Income tax expense (recovery)	\$ -	\$ -

The significant components of the Company's unrecorded net deferred tax assets (liabilities) are as follows:

	December 31, 2018	December 31, 2017
Non-capital losses - US	\$ 4,776,713	\$ 5,108,622
Non-capital losses - Canada	3,606,544	2,851,359
Property, plant and equipment	(1,409,397)	(2,214,873)
Exploration and evaluation assets	2,401,155	2,484,203
Asset retirement obligation	2,341,461	2,283,140
Other	3,504,151	325,033
Net deferred tax assets	\$ 15,220,627	\$ 10,837,484

Deductible (taxable) temporary differences for which deferred taxes have not been recognized:

	December 31, 2018	December 31, 2017	Expiry Date
Non-capital losses – US	\$ 19,205,956	\$ 20,540,478	2031 to 2037 for pre-2018 losses.
Non-capital losses - Canada	13,871,325	10,966,766	Unlimited thereafter
Property, plant and equipment	(5,666,831)	(8,905,446)	2025 to 2038
Exploration and evaluation assets	9,654,436	9,988,352	Unlimited
Asset retirement obligation	9,414,424	9,179,928	2039 to Unlimited
Other	14,089,304	1,306,877	Unlimited
Net deferred tax assets	\$ 60,568,614	\$ 43,076,955	

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

The Company did not recognize deferred tax assets in the amount of \$15,220,627. Deferred tax assets are recognized for tax loss carryforwards and other temporary differences to the extent that it is more-likely-than-not that the Company would realize the related tax benefit through future taxable profits. The Company has determined that it is not more-likely-than-not that the Company would have sufficient future taxable profits to realize the benefit of the deferred tax assets.

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12. SEGMENTED INFORMATION

The Company operates in one reportable operating segment in North America.

Geographical information is as follows:

	As at December 31, 2018	As at December 31, 2017
Property, Plant and Equipment		
United States	\$ 19,397,656	\$ 17,819,597
Canada	128,123	39,898
	<u>\$ 19,525,779</u>	<u>\$ 17,859,495</u>

13. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and evaluation, and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

In the management of capital, the Company considers components of equity.

The properties in which the Company currently has an interest are in the development and construction stage; as such the Company has obtained project financing for the development and construction activities of the Gunnison Project in the form of the Stream and Equity Placement discussed in note 7. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year.

14. FINANCIAL RISK MANAGEMENT

The Company has exposure to a variety of financial risks: market risk (including currency risk, interest rate risk and commodity price risk), credit risk and liquidity risk from its use of financial instruments.

This note presents information about the Company's exposure to each of these risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Risk management is the responsibility of management and is carried out under policies approved by the Board of Directors. Material risks are monitored and are regularly discussed with the Audit Committee and Board of Directors.

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Market risk

Market risk is the risk that changes in market price, such as foreign exchange rates and interest rates will affect the Company's cash flows or value of its financial instruments.

Foreign exchange risk

The Company is subject to currency risk on financial instruments which are denominated in currencies that are not the same as the functional currency of the entity that holds them. Exchange gains and losses would impact earnings (loss).

The Company is exposed to currency risk through cash and cash equivalents, accounts payable and accrued liabilities which are denominated in CAD\$. The Company has not hedged its exposure to currency fluctuations at this time.

Interest rate risk

The Company is subject to interest rate risk with respect to its investments in cash and cash equivalents. The Company's current policy is to invest excess cash in guaranteed investment certificates issued by its Canadian banking institution. The Company periodically monitors the investment it makes and is satisfied with the credit ratings of its banks.

Interest risk on cash and cash equivalents is minimal because these investments generally have a fixed interest rate

Commodity price risk

The Company is subject to commodity price risk from fluctuations in the market prices for copper. Commodity price risks are affected by many factors that are outside the Company's control including global or regional consumption patterns, the supply of and demand for metals, speculative activities, the availability and costs of metal substitutes, inflation and political and economic conditions. The financial instrument impacted by commodity prices is the stream obligation (derivative liability).

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents, tax receivables and restricted cash.

The Company limits its exposure to credit risk on financial assets through investing its cash and cash equivalents with high-quality North American financial institutions. The Company's receivables consist mainly of input tax credits receivable from the Government of Canada.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's objective in managing liquidity risk is to maintain sufficient liquidity to meet its liabilities when due. The Company manages liquidity risk by monitoring actual and projected cash flows and matching the maturity profile of its financial assets and liabilities. Cash flow forecasting is performed regularly. The Company also holds surety bonds to support future environmental obligations.

As of December 31, 2018, the Company has cash and cash equivalents balance of \$44,167,866 to settle current liabilities of \$3,179,414

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Fair value estimation

The Company's financial assets and liabilities are measured and recognized according to a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

The three levels of fair value hierarchy are as follows:

Level 1: Quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data

The carrying values of cash and cash equivalents, receivables, restricted cash, accounts payable and accrued liabilities, and amount due to related parties approximate their fair values due to the short-term maturity of these financial instruments.

The following tables present the Company's financial assets and liabilities by level within the fair value hierarchy.

As at December 31, 2018	Carrying value			Fair value		
	FVTPL	Amortized cost	Other financial liabilities	Level 1	Level 2	Level 3
Financial assets						
Cash and cash equivalents	\$ -	\$ 44,167,866	\$ -	\$ -	\$ -	\$ -
Restricted cash	-	3,304,390	-	-	-	-
	\$ -	\$ 47,472,256	\$ -	\$ -	\$ -	\$ -
Financial liabilities						
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 2,525,706	\$ -	\$ -	\$ -
Amount due to related parties	-	-	404,340	-	-	-
Restricted share units	249,368	-	-	-	249,368	-
Derivative liabilities	9,782,295	-	-	-	-	9,782,295
	\$ 10,031,663	\$ -	\$ 2,930,046	\$ -	\$ 249,368	\$ 9,782,295

15. COMMITMENTS

The Company has the following commitments and contractual obligations as of December 31, 2018:

Contractual Obligations	Total	Less than 1 year	1-3 years	4-5 years	After 5 years
Asset Retirement Obligation ^[1]	\$ 11,976,906	-	-	-	\$ 11,976,906
Operating Leases	\$ 244,263	\$ 98,850	\$ 145,413	-	-
Purchase Obligations	\$ 18,005,969	\$ 18,005,969	-	-	-
Total Contractual Obligations	\$ 30,227,138	\$ 18,104,819	\$ 145,413	-	\$ 11,976,906

[1] Classification of such amounts is based on estimates of when reclamation work will be performed. Amounts represent undiscounted estimates and are not reflective of inflation.