



## **CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in US Dollars)**

**Years Ended December 31, 2019 and 2018**

### **Corporate Office**

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# INTERNATIONAL TOWER HILL MINES LTD.

December 31, 2019 and 2018

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## **Report of Independent Registered Public Accounting Firm**

### **To the Shareholders and Directors of International Tower Hill Mines Ltd.**

#### *Opinion on the Consolidated Financial Statements*

We have audited the accompanying consolidated balance sheets of International Tower Hill Mines Ltd. (the “Company”), as of December 31, 2019 and 2018, and the related consolidated statements of operations and comprehensive loss, changes in shareholders’ equity, and cash flows for the years ended December 31, 2019 and 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years ended December 31, 2019 and 2018 in conformity with accounting principles generally accepted in the United States of America.

#### **Basis for Opinion**

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

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

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

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

/s/ Davidson & Company LLP  
**Chartered Professional Accountants**  
Vancouver, British Columbia, Canada  
March 9, 2020

**INTERNATIONAL TOWER HILL MINES LTD.****CONSOLIDATED BALANCE SHEETS**

As at December 31, 2019 and 2018

(Expressed in U.S. Dollars)

	Note	December 31, 2019	December 31, 2018
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		\$ 6,937,621	\$ 10,228,964
Prepaid expenses and other		238,554	203,968
Total current assets		7,176,175	10,432,932
Property and equipment		15,434	17,750
Capitalized acquisition costs	4	55,375,124	55,273,432
<b>Total assets</b>		<b>\$ 62,566,733</b>	<b>\$ 65,724,114</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable		\$ 18,433	\$ 43,475
Accrued liabilities	5	317,324	504,478
<b>Total liabilities</b>		<b>335,757</b>	<b>547,953</b>
<b>Shareholders' equity</b>			
Share capital, no par value; authorized 500,000,000 shares; 187,573,671 and 186,990,683 shares issued and outstanding at December 31, 2019 and 2018, respectively	7	278,213,801	277,852,672
Contributed surplus		35,069,274	34,960,292
Accumulated other comprehensive income		1,574,011	1,162,900
Deficit		(252,626,110)	(248,799,703)
<b>Total shareholders' equity</b>		<b>62,230,976</b>	<b>65,176,161</b>
<b>Total liabilities and shareholders' equity</b>		<b>\$ 62,566,733</b>	<b>\$ 65,724,114</b>

**Nature of operations** (Note 1)**Commitments** (Note 9)

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

**INTERNATIONAL TOWER HILL MINES LTD.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**  
For the Years Ended December 31, 2019 and 2018  
(Expressed in U.S. Dollars)

	Note	December 31, 2019	December 31, 2018
<b>Operating Expenses</b>			
Consulting fees	7	\$ 484,546	\$ 553,292
Depreciation		2,316	3,043
Insurance		123,997	169,036
Investor relations	7	38,697	58,267
Mineral property exploration	4	1,689,228	1,576,251
Office		30,535	33,870
Other		14,910	16,229
Professional fees		192,339	227,082
Regulatory		126,895	146,615
Rent	11	135,737	135,736
Travel		33,045	59,192
Wages and benefits	7	778,224	1,889,611
<b>Total operating expenses</b>		<b>(3,650,469)</b>	<b>(4,868,224)</b>
<b>Other income (expense)</b>			
Gain/(loss) on foreign exchange		(406,454)	522,248
Interest income		164,533	119,106
Other income		65,983	34,832
<b>Total other income (expense)</b>		<b>(175,938)</b>	<b>676,186</b>
<b>Net loss for the year</b>		<b>(3,826,407)</b>	<b>(4,192,038)</b>
<b>Other comprehensive income (loss)</b>			
Unrealized loss on marketable securities		-	(1,526)
Reclassification of accumulated unrealized loss on available-for-sale securities to other income		-	22,352
Exchange difference on translating foreign operations		411,111	(544,285)
<b>Total other comprehensive income/(loss) for the year</b>		<b>411,111</b>	<b>(523,459)</b>
<b>Comprehensive loss for the year</b>		<b>\$ (3,415,296)</b>	<b>\$ (4,715,497)</b>
<b>Basic and diluted net loss per share</b>		<b>\$ (0.02)</b>	<b>\$ (0.02)</b>
<b>Weighted average number of shares outstanding – basic and diluted</b>		<b>187,359,884</b>	<b>181,984,179</b>

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

**INTERNATIONAL TOWER HILL MINES LTD.**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
For the Years Ended December 31, 2019 and 2018  
(Expressed in U.S. Dollars)

	Number of shares	Share capital	Contributed surplus	Obligation to issue shares	Accumulated other comprehensive income/(loss)	Deficit	Total
Balance, December 31, 2017	162,392,996	\$ 265,616,642	\$ 34,459,264	\$ 63,593	\$ 1,686,359	\$ (244,607,665)	\$ 57,218,193
Stock based compensation-option	-	-	189,396	-	-	-	189,396
Stock based compensation-DSU	-	-	414,422	-	-	-	414,422
Unrealized loss on available-for-sale securities	-	-	-	-	(1,526)	-	(1,526)
Reclassification of accumulated unrealized loss on available-for-sale securities to other income	-	-	-	-	22,352	-	22,352
Exchange difference on translating foreign operations	-	-	-	-	(544,285)	-	(544,285)
Share issuance	24,129,687	12,063,593	-	(63,593)	-	-	12,000,000
Exercise of options	468,000	181,026	-	-	-	-	181,026
Share issuance costs	-	(111,379)	-	-	-	-	(111,379)
Reallocation from contributed surplus	-	102,790	(102,790)	-	-	-	-
Net loss	-	-	-	-	-	(4,192,038)	(4,192,038)
Balance, December 31, 2018	186,990,683	277,852,672	34,960,292	-	1,162,900	(248,799,703)	65,176,161
Stock based compensation-option	-	-	89,140	-	-	-	89,140
Stock based compensation-DSU	-	-	316,717	-	-	-	316,717
Exchange difference on translating foreign operations	-	-	-	-	411,111	-	411,111
Share issuance	461,814	245,592	(245,592)	-	-	-	-
Exercise of options	121,174	64,254	-	-	-	-	64,254
Reallocation from contributed surplus	-	51,283	(51,283)	-	-	-	-
Net loss	-	-	-	-	-	(3,826,407)	(3,826,407)
Balance, December 31, 2019	187,573,671	\$ 278,213,801	\$ 35,069,274	\$ -	\$ 1,574,011	\$ (252,626,110)	\$ 62,230,976

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

**INTERNATIONAL TOWER HILL MINES LTD.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
For the Years Ended December 31, 2019 and 2018  
(Expressed in U.S. Dollars)

	December 31, 2019	December 31, 2018
<b>Operating Activities</b>		
Loss for the year	\$ (3,826,407)	\$ (4,192,038)
Add items not affecting cash:		
Depreciation	2,316	3,043
Stock-based compensation-option	89,140	189,396
Stock-based compensation-DSU	316,717	414,422
Loss on sale of marketable securities	-	19,953
Changes in non-cash working capital items:		
Accounts receivable	(15,266)	(99,480)
Prepaid expenses	(11,023)	48,162
Accounts payable and accrued liabilities	(215,110)	124,812
<b>Cash used in operating activities</b>	<b>(3,659,633)</b>	<b>(3,491,730)</b>
<b>Financing Activities</b>		
Issuance of common shares	64,254	12,181,026
Share issuance costs	-	(111,379)
<b>Cash provided by financing activities</b>	<b>64,254</b>	<b>12,069,647</b>
<b>Investing Activities</b>		
Capitalized acquisition costs	(101,692)	(69,391)
Sale of marketable securities	-	14,519
<b>Cash used in investing activities</b>	<b>(101,692)</b>	<b>(54,872)</b>
<b>Effect of foreign exchange on cash and cash equivalents</b>	<b>405,728</b>	<b>(538,547)</b>
<b>Increase/(decrease) in cash and cash equivalents</b>	<b>(3,291,343)</b>	<b>7,984,498</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>10,228,964</b>	<b>2,244,466</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 6,937,621</b>	<b>\$ 10,228,964</b>

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

**INTERNATIONAL TOWER HILL MINES LTD.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Expressed in U.S. Dollars)

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**1. GENERAL INFORMATION, NATURE OF OPERATIONS**

International Tower Hill Mines Ltd. (“ITH” or the “Company”) is incorporated under the laws of British Columbia, Canada. The Company’s head office address is 2300-1177 West Hastings Street, Vancouver, British Columbia, Canada.

International Tower Hill Mines Ltd. consists of ITH and its wholly owned subsidiaries Tower Hill Mines, Inc. (“TH Alaska”) (an Alaska corporation), Tower Hill Mines (US) LLC (“TH US”) (a Colorado limited liability company), and Livengood Placers, Inc. (“LPI”) (a Nevada corporation). The Company is in the business of acquiring, exploring and evaluating mineral properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. At December 31, 2019, the Company was in the exploration stage and controls a 100% interest in its Livengood Gold Project in Alaska, U.S.A.

These consolidated financial statements have been prepared on a going-concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future.

The Company will require significant additional financing to continue its operations in connection with advancing activities at the Livengood Gold Project and for the development of any mine that may be determined to be built at the Livengood Gold Project. There is no assurance that the Company will be able to obtain the additional financing required on acceptable terms, if at all.

In addition, any significant delays in the issuance of required permits for the ongoing work at the Livengood Gold Project, or unexpected results in connection with the ongoing work, could result in the Company being required to raise additional funds to advance permitting efforts. The Company’s review of its financing options includes pursuing a future strategic alliance to assist in further development, permitting and future construction costs.

Despite the Company’s success to date in raising significant equity financing to fund its operations, there is significant uncertainty that the Company will be able to secure any additional financing in the current or future equity markets. The amount of funds to be raised and the terms of any proposed equity financing that may be undertaken will be negotiated by management as opportunities to raise funds arise. Specific plans related to the use of proceeds will be devised once financing has been completed and management knows what funds will be available for these purposes. Due to this uncertainty, if the Company is unable to secure additional financing, it may be required to reduce all discretionary activities at the Project to preserve its working capital to fund anticipated non-discretionary expenditures beyond the 2020 fiscal year. As at March 9, 2020, management believes that the Company has sufficient financial resources to maintain its operations for the next twelve months.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of presentation**

These consolidated financial statements are presented in United States dollars and have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). On March 9, 2020, the Board approved the consolidated financial statements dated December 31, 2019.

**Basis of consolidation**

These consolidated financial statements include the accounts of ITH and its wholly owned subsidiaries TH Alaska, TH US, and LPI. All intercompany transactions and balances have been eliminated.

**Significant judgments, estimates and assumptions**

The preparation of financial statements in accordance with U.S. GAAP requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. These judgments, estimates and assumptions are regularly evaluated and are based on management’s experience and knowledge of the relevant facts and circumstances. While management believes the estimates to be reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.



The areas which require significant judgment and estimates that management has made at the financial reporting date, that could result in a material change to the carrying amounts of assets and liabilities, in the event actual results differ from the assumptions made, relate to, but are not limited to the following:

#### Significant judgments

- the determination of functional currencies;
- quantitative and qualitative factors used in the assessment of impairment of the Company's capitalized acquisition costs; and
- the analysis of resource calculations, drill results, labwork, etc. which can impact the Company's assessment of impairment, and provisions, if any, for environmental rehabilitation and restoration.

#### **Cash and cash equivalents**

Cash equivalents include highly liquid investments with original maturities of twelve months or less, and which are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

#### **Marketable securities**

Marketable securities held in companies with an active market are classified as available-for-sale securities. Available-for-sale securities are recorded at fair value in the financial statements with unrealized gains and losses recorded in accumulated other comprehensive income. Accumulated unrealized gains and losses are recognized in the statement of operations upon the sale of the security or if the security is determined to be impaired.

#### **Property and equipment**

On initial recognition, property and equipment are valued at cost. Property and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated. Depreciation is recorded over the estimated useful life of the assets at the following annual rates:

Computer equipment - 30% declining balance;  
Computer software - 3 years straight line;  
Furniture and equipment - 20% declining balance; and  
Leasehold improvements - straight-line over the lease term.

Additions during the year are depreciated at one-half the annual rates. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

#### **Mineral properties and exploration and evaluation expenditures**

The Company's mineral project is currently in the exploration and evaluation phase. Mineral property acquisition costs are capitalized when incurred. Mineral property exploration costs are expensed as incurred. At such time that the Company determines that a mineral property can be economically developed, subsequent mineral property expenses will be capitalized during the development of such property.

The Company assesses interests in exploration properties for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. Impairment analysis includes assessment of the following circumstances: a significant decrease in the market price of a long-lived asset or asset group; a significant adverse change in the extent or manner in which a long-lived asset or asset group is being used or in its physical condition; a significant adverse change in legal factors or in the business climate that could affect the value of a long-lived asset or asset group, including an adverse action or assessment by a regulator; an accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset or asset group; a current-period operating or cash flow loss combined with a history of operating or cash flow losses or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset or asset group; a current expectation that, more likely than not, a long-lived asset or asset group will be sold or otherwise disposed of significantly before the end of its previously estimated useful life. The term more likely than not refers to a level of likelihood that is more than 50%.

#### **Asset retirement obligations**

The Company records a liability based on the best estimate of costs for site closure and reclamation activities that the

Company is legally or contractually required to remediate. The provision for closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports and accreted to full value over time through periodic charges to income. The Company does not have any material provisions for environmental rehabilitation as of December 31, 2019.

### **Impairment of long-lived assets and long-lived assets to be disposed of**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount and the fair value less costs to sell.

### **Income taxes**

The Company accounts for income taxes under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under the asset and liability method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if it is more likely than not that some portion or the entire deferred tax asset will not be recognized.

### **Net loss per share**

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share reflects the potential dilution that could occur if securities or contracts that may require the issuance of common shares in the future were converted, unless the impact is anti-dilutive. For the year ended December 31, 2019, this calculation proved to be anti-dilutive, and therefore the Company's 2,452,049 stock options and 1,383,396 deferred share units ("DSUs") outstanding at year-end have been excluded from the calculation.

### **Stock-based compensation**

The Company follows the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification Section 718 "Compensation - Stock Compensation", which establishes accounting for equity based compensation awards to be accounted for using the fair value method. Equity-settled share based payment arrangements are initially measured at fair value at the date of grant and recorded within shareholders' equity. Arrangements considered to be cash-settled are initially recorded at fair value and classified as accrued liabilities, and subsequently re-measured at fair value at each reporting date. The Company's stock option plan is an equity-settled arrangement and the Company's deferred share unit plan can be an equity or cash settled arrangement depending on the grant date term.

The fair value at grant date of all share-based payments is recognized as compensation expense over the period for which benefits of services are expected to be derived, with a corresponding credit to shareholders' equity or accrued liabilities depending on whether they are equity-settled or cash-settled. The Company estimates the fair value of stock options granted using the Black-Scholes option pricing model and estimate the expected forfeiture rate at the date of grant. The value of DSUs is estimated based on the quoted market price of the Company's common shares. When awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognized is proportionately reversed.

### **Functional Currency**

The Company's consolidated financial statements are presented in U.S. dollars, which is the Company's reporting currency. The functional currency of ITH is the Canadian ("CAD" or "C") dollar and the functional currency of ITH Alaska, TH US and LPI is the U.S. dollar.

In accordance with ASC 830, Foreign Currency Matters, the Company translates the assets and liabilities into U.S. dollars using the rate of exchange prevailing at the balance sheet date and the statements of operations and comprehensive loss and cash flows are translated at an average rate during the reporting period. Adjustments resulting from the translation from CAD into U.S. dollars are recorded in shareholders' equity as part of accumulated other comprehensive income.

Foreign currency transactions are translated into the functional currency of the respective currency of the entity or division, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at period-end exchange rates are recognized in profit or loss. Non-monetary items that are not re-translated at period end are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value, which are translated using the exchange rates as at the date when fair value was determined. Gains and losses are recorded in the statement of operations and comprehensive loss.

### Recently Adopted Accounting Pronouncements

*Accounting Standards Update No. 2016-02 Leases (Topic 842)*. In February 2016, the FASB issued a new standard regarding leases. These are elements of the new standard that could impact almost all entities to some extent, although lessees will likely see the most significant changes. Lessees will need to recognize virtually all of their leases on the balance sheet, by recording a right-of-use asset and a lease liability. The Company adopted the standards on January 1, 2019 and adoption had no impact on the Company's financial statements.

*Accounting Standards Update 2016-16—Income Taxes, Intra-Entity Transfers of Assets Other Than Inventory (Topic 740)*. In October 2016, the FASB issued guidance intended to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory by requiring an entity to recognize the income tax consequences when a transfer occurs, instead of when an asset is sold to an outside party. The adoption of the guidance had no impact on the Company's financial statements.

*Accounting Standards Update No. 2014-09—Revenue from Contracts with Customers (Topic 606)*. On May 28, 2014, the FASB issued guidance that requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This ASU was further amended in August 2015, March 2016, April 2016, May 2016 and December 2016 by ASU No. 2015-014, No. 2016-08, No. 2016-10, No. 2016-12 and No. 2016-20, respectively. The guidance provides a five-step approach to be applied to all contracts with customers and also requires expanded disclosures about revenue recognition. The adoption of the guidance had no impact on the Company's financial statements.

### 3. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and,
- Level 3 – Inputs that are not based on observable market data.

### 4. CAPITALIZED ACQUISITION COSTS

The Company had the following activity related to capitalized acquisition costs:

<b>Capitalized acquisition costs</b>	<b>Amount</b>
Balance, December 31, 2017	\$ 55,204,041
Additions	69,391
Balance, December 31, 2018	\$ 55,273,432
Additions	101,692
Balance, December 31, 2019	\$ 55,375,124

The following table presents costs incurred for exploration and evaluation activities for the years ended December 31, 2019 and 2018:

	Year ended December 31, 2019	Year ended December 31, 2018
Exploration costs:		
Aircraft services	\$ 4,350	\$ 4,200
Environmental	169,171	232,648
Equipment and facilities rental	75,774	35,039
Field costs	75,772	91,677
Geological/geophysical	710,121	632,653
Land maintenance & tenure	575,975	506,934
Legal	70,229	67,929
Transportation and travel	7,836	5,171
<b>Total expenditures for the year</b>	<b>\$ 1,689,228</b>	<b>\$ 1,576,251</b>

### Properties acquired from AngloGold, Alaska

Pursuant to an Asset Purchase and Sale and Indemnity Agreement dated June 30, 2006, as amended on July 26, 2007 (the “AngloGold Agreement”), among the Company, AngloGold Ashanti (U.S.A.) Exploration Inc. (“AngloGold”) and TH Alaska, the Company acquired all of AngloGold’s interest in a portfolio of seven mineral exploration projects in Alaska and referred to as the Livengood, Chisna, Gilles, Coffee Dome, West Pogo, Blackshell, and Caribou properties (the “Sale Properties”) in exchange for a cash payment of \$50,000 on August 4, 2006, and the issuance of 5,997,295 common shares, representing approximately 19.99% of the Company’s issued shares following the closing of the acquisition and two private placement financings raising an aggregate of C\$11,479,348.

As further consideration for the transfer of the Sale Properties, the Company granted to AngloGold a 90-day right of first offer with respect to the Sale Properties and any additional mineral properties in Alaska in which the Company acquires an interest and which interest the Company proposes to farm out or otherwise dispose of. Upon AngloGold’s equity interest in the Company being reduced to less than 10%, this right of first offer would then terminate.

On December 11, 2014, the Company closed a private placement financing in which AngloGold elected not to participate. As a result of the shares issued in this private placement, AngloGold’s ownership in the Company was reduced to less than 10% and thus both AngloGold’s right to maintain its ownership percentage interest and its right of first offer on the Company’s Alaskan properties terminated upon the closing of the December 2014 private placement.

Details of the Livengood Property (being the only Sale Property still held by the Company) are as follows:

#### Livengood Property:

The Livengood property is located in the Tintina gold belt approximately 113 kilometers (70 miles) north of Fairbanks, Alaska. The property consists of land leased from the Alaska Mental Health Trust, a number of smaller private mineral leases, Alaska state mining claims purchased or located by the Company and patented ground held by the Company.

Details of the leases are as follows:

- a) a lease of the Alaska Mental Health Trust mineral rights having a term beginning July 1, 2004 and extending 19 years until June 30, 2023, subject to further extensions beyond June 30, 2023 by either commercial production or payment of an advance minimum royalty equal to 125% of the amount paid in year 19 and diligent pursuit of development. The lease requires minimum work expenditures and advance minimum royalties which escalate annually with inflation. A net smelter return (“NSR”) production royalty of between 2.5% and 5.0% (depending upon the price of gold) is payable to the lessor with respect to the lands subject to this lease. In addition, an NSR production royalty of 1% is payable to the lessor with respect to the unpatented federal mining claims subject to the lease described in b) below and an NSR production royalty of between 0.5% and 1.0% (depending upon the price of gold) is payable to the lessor with respect to the lands acquired by the Company as a result of the purchase of Livengood Placers, Inc. in December 2011. As of December 31, 2019, the Company has paid \$3,306,615 from the inception of this lease.

- b) a lease of federal unpatented lode mining claims having an initial term of ten years commencing on April 21, 2003 and continuing for so long thereafter as advance minimum royalties are paid and mining related activities, including exploration, continue on the property or on adjacent properties controlled by the Company. The lease requires an advance minimum royalty of \$50,000 on or before each anniversary date (all of which minimum royalties are recoverable from production royalties). An NSR production royalty of between 2% and 3% (depending on the price of gold) is payable to the lessors. The Company may purchase 1% of the royalty for \$1,000,000. As of December 31, 2019, the Company has paid \$780,000 from the inception of this lease.
- c) a lease of patented lode claims having an initial term of ten years commencing January 18, 2007, and continuing for so long thereafter as advance minimum royalties are paid. The lease requires an advance minimum royalty of \$20,000 on or before each anniversary date through January 18, 2017 and \$25,000 on or before each subsequent anniversary (all of which minimum royalties are recoverable from production royalties). An NSR production royalty of 3% is payable to the lessors. The Company may purchase all interests of the lessors in the leased property (including the production royalty) for \$1,000,000 (less all minimum and production royalties paid to the date of purchase), of which \$500,000 is payable in cash over four years following the closing of the purchase and the balance of \$500,000 is payable by way of the 3% NSR production royalty. As of December 31, 2019, the Company has paid \$235,000 from the inception of this lease. The Company owns a 40% leasehold interest in the lease.
- d) a lease of unpatented federal lode mining and federal unpatented placer claims having an initial term of ten years commencing on March 28, 2007, and continuing for so long thereafter as advance minimum royalties are paid and mining related activities, including exploration, continue on the property or on adjacent properties controlled by the Company. The lease requires an advance minimum royalty of \$15,000 on or before each anniversary date (all of which minimum royalties are recoverable from production royalties). The Company is required to pay the lessor the sum of \$250,000 upon making a positive production decision, payable \$125,000 within 120 days of the decision and \$125,000 within a year of the decision (all of which are recoverable from production royalties). An NSR production royalty of 2% is payable to the lessor. The Company may purchase all of the interest of the lessor in the leased property (including the production royalty) for \$1,000,000. As of December 31, 2019, the Company has paid \$158,000 from the inception of this lease.

#### **Title to mineral properties**

The acquisition of title to mineral properties is a detailed and time-consuming process. The Company has taken steps to verify title to mineral properties in which it has an interest. Although the Company has taken every reasonable precaution to ensure that legal title to its properties is properly recorded in the name of the Company, there can be no assurance that such title will ultimately be secured.

#### **5. ACCRUED LIABILITIES**

The following table presents the accrued liabilities balances at December 31, 2019 and 2018.

	<b>December 31, 2019</b>	<b>December 31, 2018</b>
Accrued liabilities	\$ 278,644	\$ 172,147
Accrued salaries and benefits	38,680	332,331
<b>Total accrued liabilities</b>	<b>\$ 317,324</b>	<b>\$ 504,478</b>

Accrued liabilities at December 31, 2019 include accruals for general corporate costs and project costs of \$57,114 and \$221,530, respectively. Accrued liabilities at December 31, 2018 include accruals for general corporate costs and project costs of \$35,176 and \$136,971, respectively.

#### **6. INCOME TAXES**

A reconciliation of income taxes at statutory rates with the reported taxes is as follows for the years ended December 31, 2019 and 2018:

	December 31, 2019	December 31, 2018
Loss before income taxes	\$ (3,826,407)	\$ (4,192,038)
Statutory Canadian corporate tax rate	27.00%	27.00%
Expected income tax (recovery)	\$ (1,033,130)	\$ (1,131,850)
Share-based payments	109,581	163,031
Difference in tax rates in other jurisdictions	(88,499)	(119,329)
Share issue cost	68,800	(26,284)
Adjustment to prior years provision versus statutory tax returns	3,721	7,076
Change in unrecognized deductible temporary differences	939,527	1,107,356
Total income tax expense (recovery)	\$ -	\$ -

The significant components of the Company's deferred tax assets are as follows:

	December 31, 2019	December 31, 2018
Deferred income tax assets (liabilities):		
Mineral properties	\$ 20,156,879	\$ 21,801,955
Property and equipment	8,059	7,362
Share issue costs	31,653	48,434
Allowable capital losses	-	54,212
Net operating losses available for future periods	52,617,248	49,962,349
	72,813,839	71,874,312
Valuation allowance	(72,813,839)	(71,874,312)
Net deferred tax asset	\$ -	\$ -

At December 31, 2019, the Company has available net operating losses for Canadian income tax purposes of approximately \$20,779,000 and net operating losses for US income tax purposes of approximately \$145,894,000 available for carry-forward to reduce future years' taxable income, if not utilized, expiring as follows:

	Canada	United States
2038	\$ 125,000	\$ 8,741,000
2037	1,394,000	8,800,000
2036	1,383,000	8,798,000
2035	406,000	10,703,000
2034	1,694,000	12,587,000
2033	1,827,000	14,208,000
2032	2,629,000	16,798,000
2031	4,180,000	10,386,000
2030	2,829,000	30,439,000
2029	2,074,000	18,765,000
2028	1,253,000	2,973,000
2027	907,000	1,412,000
2026	78,000	1,284,000
	\$ 20,779,000	\$ 145,894,000

The Company also has available mineral resource expenses that are related to the Company's exploration activities in the United States of approximately \$126,681,000 which may be deductible for U.S. tax purposes. Future tax benefits, which may arise as a result of applying these deductions to taxable income, have not been recognized in these accounts due to the uncertainty of future taxable income.

## **7. SHARE CAPITAL**

### **Authorized**

The Company's authorized share capital consists of 500,000,000 common shares without par value. At December 31, 2018 and 2019, there were 186,990,683 and 187,573,671 shares issued and outstanding, respectively.

### **Share issuances**

During the year ended December 31, 2019, the Company issued 121,174 common shares pursuant to the exercise of stock options for total proceeds of \$64,254 and transferred related contributed surplus of \$51,283 to share capital.

At the Company's 2019 Annual General Meeting of Shareholders held on May 30, 2019, Messrs. John Ellis and Thomas Irwin did not stand for re-election as director. On June 5, 2019, in accordance with the Company's Deferred Share Unit Plan, the Company issued 230,907 common shares to each of the two past directors for a total of 461,814 common shares and transferred related contributed surplus of \$245,592 to share capital.

On March 13, 2018, the Company completed a non-brokered private placement pursuant to which it issued 24,000,000 common shares at \$0.50 per share for gross proceeds of \$12,000,000. Share issuance costs included \$111,379 related to the private placement. Following the resignation of director Mark Hamilton on November 6, 2017, the Company recognized an obligation to issue 129,687 common shares, with a value of \$63,593. On March 27, 2018, the Company issued the 129,687 common shares in full satisfaction of the obligation. The Company also issued 468,000 common shares pursuant to the exercise of stock options for total proceeds of \$181,026 and transferred related contributed surplus of \$102,790 to share capital during the year ended December 31, 2018.

### **Stock options**

The Company adopted an incentive stock option plan in 2006, as amended September 19, 2012 and re-approved by the Company's shareholders on May 28, 2015 and May 30, 2018 (the "2006 Plan"). The essential elements of the 2006 Plan provide that the aggregate number of common shares of the Company's capital stock that may be issued pursuant to options granted under the 2006 Plan may not exceed 10% of the number of issued shares of the Company at the time of the granting of the options. Options granted under the 2006 Plan have a maximum term of ten years. The exercise price of options granted under the 2006 Plan shall be fixed in compliance with the applicable provisions of the TSX Company Manual in force at the time of grant and, in any event, shall not be less than the closing price of the Company's common shares on the TSX on the trading day immediately preceding the day on which the option is granted, or such other price as may be agreed to by the Company and accepted by the TSX. Options granted under the 2006 Plan vest immediately, unless otherwise determined by the directors at the date of grant.

During the year ended December 31, 2019, the Company granted a total of 187,232 incentive stock options to employees of the Company to purchase common shares in the capital stock of the Company at an issue price of C\$0.85 per share. Of the total 187,232 stock options granted, 150,000 were granted to Mr. Karl Hanneman, Chief Executive Officer. All of the options vested 100% on the grant date of August 8, 2019 and expire on August 8, 2025.

During the year ended December 31, 2018, the Company granted a total of 420,085 incentive stock options to employees of the Company to purchase common shares in the capital stock of the Company at an issue price of C\$0.61 per share. Of the total 420,085 stock options granted, 332,417 were granted to Mr. Karl Hanneman, Chief Executive Officer. All of the options vested 100% on the grant date of March 21, 2018 and expire of March 21, 2024.

A summary of the status of the stock option plan as of December 31, 2019 and 2018 and changes during the fiscal years is presented below:

	Year Ended December 31, 2019			Year Ended December 31, 2018		
	Number of Options	Weighted Average Exercise Price (C\$)	Aggregate Intrinsic Value (C\$)	Number of Options	Weighted Average Exercise Price (C\$)	Aggregate Intrinsic Value (C\$)
Balance, beginning of the year	3,655,991	\$ 0.98		4,477,000	\$ 1.03	
Granted	187,232	\$ 0.85		420,085	\$ 0.61	
Exercised	(121,174)	\$ 0.70		(468,000)	\$ 0.50	
Expired	-	-		(269,000)	\$ 2.18	
Cancelled	(1,270,000)	\$ 1.06		(504,094)	\$ 0.95	
Balance, end of the year	2,452,049	\$ 0.94	\$ 59,734	3,655,991	\$ 0.98	\$ 67,899

The weighted average remaining life of options outstanding at December 31, 2019 was 3.4 years.

Stock options outstanding are as follows:

Expiry Date	December 31, 2019			December 31, 2018		
	Exercise Price (C\$)	Number of Options	Exercisable	Exercise Price (C\$)	Number of Options	Exercisable
February 25, 2022	\$ 1.11	510,000	510,000	\$ 1.11	970,000	970,000
February 25, 2022	\$ 0.73	270,000	270,000	\$ 0.73	360,000	360,000
March 10, 2022	\$ 1.11	120,000	120,000	\$ 1.11	370,000	370,000
March 16, 2023	\$ 1.00	580,000	580,000	\$ 1.00	1,140,000	1,140,000
March 16, 2023	\$ 0.50	130,000	130,000	\$ 0.50	130,000	130,000
June 9, 2023	\$ 1.00	30,000	30,000	\$ 1.00	30,000	30,000
March 21, 2024	\$ 0.61	374,817	374,817	\$ 0.61	405,991	405,991
February 1, 2025	\$ 1.35	250,000	250,000	\$ 1.35	250,000	166,667
August 8, 2025	\$ 0.85	187,232	187,232	-	-	-
		2,452,049	2,452,049		3,655,991	3,572,658

A summary of the non-vested options as of December 31, 2019 and 2018 and changes during the fiscal years ended December 31, 2019 and 2018 is as follows:

Non-vested options:	Number of options	Weighted average grant-date fair value (C\$)
Outstanding at December 31, 2017	166,667	\$0.40
Granted	420,085	\$0.48
Vested	(503,419)	\$0.47
Outstanding at December 31, 2018	83,333	\$0.40
Granted	187,232	\$0.62
Vested	(270,565)	\$0.55
Outstanding at December 31, 2019	-	-

At December 31, 2019, there was no unrecognized compensation expense related to non-vested options outstanding.

#### Deferred Share Unit Incentive Plan

On April 4, 2017, the Company adopted a Deferred Share Unit Plan (the “DSU Plan”). On May 24, 2017, at the Company’s Annual General Meeting of Shareholders, the DSU Plan was approved. As at December 31, 2019, the maximum aggregate number of common shares that could be issued under the DSU Plan and the 2006 Plan was 18,757,367, representing 10% of the number of issued and outstanding common shares on that date (on a non-diluted basis). As at December 31, 2019, the Company had stock options to potentially acquire 2,452,049 common shares outstanding under the 2006 Plan (representing approximately 1.31% of the outstanding common shares), leaving up to 16,305,318 common shares available for future



grants under the DSU Plan and under the 2006 Plan (combined) based on the number of outstanding common shares as at that date on a non-diluted basis (representing an aggregate of approximately 8.69% of the outstanding common shares).

During the year ended December 31, 2019, in accordance with the Company's DSU Plan, the Company granted each of the members of the Board of Directors (other than those directors nominated for election by Paulson & Co., Inc.) 97,647 DSUs with a grant date fair value (defined as the weighted average of the prices at which the common shares traded on the exchange with the most volume for the five trading days immediately preceding the grant) of C\$0.85 per DSU, representing C\$83,000 per director or C\$415,000 in the aggregate.

During the year ended December 31, 2018, in accordance with the Company's DSU Plan, the Company granted each of the members of the Board of Directors (other than those directors nominated for election by Paulson & Co., Inc.) 101,220 DSUs with a grant date fair value (defined as the weighted average of the prices at which the common shares traded on the exchange with the most volume for the five trading days immediately preceding the grant) of C\$0.82 per DSU, representing C\$83,000 per director or C\$581,003 in the aggregate.

The DSUs entitle the holders to receive common shares of the Company's stock without the payment of any consideration. The DSUs vested immediately upon being granted, but the common shares of stock underlying the DSUs are not deliverable to the grantee until the grantee is no longer serving on the Company's Board of Directors.

DSUs outstanding are as follows:

	Year Ended December 31, 2019		Year Ended December 31, 2018	
	Number of Units	Weighted Average Exercise Price (C\$)	Number of Units	Weighted Average Exercise Price (C\$)
Balance, beginning of the year	1,356,975	\$ 0.72	648,435	\$ 0.62
Issued	488,235	\$ 0.85	708,540	\$ 0.82
Delivered	(461,814)	\$ 0.71	-	-
Balance, end of the year	1,383,396	\$ 0.77	1,356,975	\$ 0.72

#### Obligation to issue shares

Following the resignation of director Mark Hamilton on November 6, 2017, the Company recorded an obligation to issue 129,687 DSUs valued at \$63,593 (C\$80,406). On March 27, 2018, the Company issued the 129,687 common shares in full satisfaction of the obligation.

#### Share-based payments

During the year ended December 31, 2019, the Company granted 187,232 stock options and 488,235 DSUs for common shares of the Company. Share-based payment compensation for the year ended December 31, 2019 totaled \$405,857 (\$89,140 related to stock options and \$316,717 related to DSUs). Of the total expense for the year ended December 31, 2019, \$316,717 was included in consulting fees and \$89,140 was included in wages and benefits in the statement of operations and comprehensive loss.

During the year ended December 31, 2018, the Company granted 420,085 stock options and 708,540 DSUs for common shares of the Company. Share-based payment compensation for the year ended December 31, 2018 totaled \$603,818 (\$189,396 related to stock options and \$414,422 related to DSUs). Of the total expense for the year ended December 31, 2018, \$414,422 was included in consulting fees, \$183,429 was included in wages and benefits and \$5,967 was included in investor relations in the statement of operations and comprehensive loss.

The following weighted average assumptions were used for the Black-Scholes option pricing model calculations:

	Year ended December 31, 2019	Year ended December 31, 2018
Expected life of options	6 years	6 years
Risk-free interest rate	1.23%	2.12%
Expected volatility	85.44%	93.67%
Dividend rate	0.00%	0.00%
Exercise price (C\$)	\$0.85	\$0.61

The expected volatility used in the Black-Scholes option pricing model is based on the historical volatility of the Company's shares.

## 8. SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in a single reportable operating segment, being the exploration and development of mineral properties. The following tables present selected financial information by geographic location:

	Canada	United States	Total
<b>December 31, 2019</b>			
Capitalized acquisition costs	\$ -	\$ 55,375,124	\$ 55,375,124
Property and equipment	7,979	7,455	15,434
Current assets	6,652,289	523,886	7,176,175
<b>Total assets</b>	<b>\$ 6,660,268</b>	<b>\$ 55,906,465</b>	<b>\$ 62,566,733</b>

<b>December 31, 2018</b>			
Capitalized acquisition costs	\$ -	\$ 55,273,432	\$ 55,273,432
Property and equipment	8,191	9,559	17,750
Current assets	9,928,115	504,817	10,432,932
<b>Total assets</b>	<b>\$ 9,936,306</b>	<b>\$ 55,787,808</b>	<b>\$ 65,724,114</b>

	Year ended December 31, 2019	Year ended December 31, 2018
Net loss for the year - Canada	\$ (1,223,489)	\$ (682,348)
Net loss for the year - United States	(2,602,918)	(3,509,690)
<b>Net loss for the year</b>	<b>\$ (3,826,407)</b>	<b>\$ (4,192,038)</b>

## 9. COMMITMENTS

The following table discloses, as of December 31, 2019, the Company's contractual obligations including anticipated mineral property payments and work commitments. Under the terms of the Company's mineral property purchase agreements, mineral leases and the terms of the unpatented mineral claims held by it, the Company is required to make certain scheduled acquisition payments, incur certain levels of expenditures, make lease or advance royalty payments, make payments to government authorities and incur assessment work expenditures as summarized in the table below in order to maintain and preserve the Company's interests in the related mineral properties. If the Company is unable or unwilling to make any such payments or incur any such expenditures, it is likely that the Company would lose or forfeit its rights to acquire or hold the related mineral properties. The following table assumes that the Company retains the rights to all of its current mineral properties, but does not exercise any lease purchase or royalty buyout options:

	Payments Due by Year						Total
	2020	2021	2022	2023	2024	2025 and beyond	
Mineral Property Leases <sup>(1)</sup>	\$428,951	\$434,185	\$439,498	\$444,890	\$450,363	\$455,918	\$2,653,805
Mining Claim							
Government Fees	132,460	132,460	132,460	132,460	132,460	132,460	794,760
<b>Total</b>	<b>\$561,411</b>	<b>\$ 566,645</b>	<b>\$ 571,958</b>	<b>\$ 577,350</b>	<b>\$ 582,823</b>	<b>\$ 588,378</b>	<b>\$3,448,565</b>

- Does not include required work expenditures, as it is assumed that the required expenditure level is significantly below the work for which will actually be carried out by the Company. Does not include potential royalties that may be payable (other than annual minimum royalty payments). See Note 4.

## **10. RELATED PARTY TRANSACTIONS**

In March 2018, the Company closed a non-brokered private placement financing through the issuance of 4,105,472 shares to Paulson & Co., Inc. (“Paulson”) and 19,894,528 shares to Electrum Strategic Opportunities Fund II, L.P. (“Electrum”) at a price of \$0.50 per share. As at December 31, 2018, Paulson, Tocqueville Asset Management, and Electrum beneficially own approximately 31.9%, 16.1%, and 14.2% respectively of the Company's 186,990,683 common shares.

## **11. LEASES**

On December 12, 2019, the Company entered into a one-year operating lease agreement (for the lease period of January 1, 2020 through December 31, 2020) of the Fairbanks office. After the initial one-year lease period, the agreement may renew on a month-to-month basis. The Company does not consider any additional renewal periods to be reasonably certain of being exercised and has therefore elected the short-term lease recognition exemption for the office lease. Accordingly, office lease costs will continue to be reported as rent expense on the Consolidated Statements of Operations and Comprehensive Loss and the Company will not recognize a right-of-use model (ROU) asset or lease liability on the Consolidated Balance Sheets.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

### **Disclosure Controls and Procedures**

As of December 31, 2019, an evaluation was carried out under the supervision of and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on the evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of December 31, 2019, the Company's disclosure controls and procedures were effective in ensuring that information required to be disclosed in reports filed or submitted to the SEC under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in applicable rules and forms and (ii) accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, in a manner that allows for timely decisions regarding required disclosures.

The effectiveness of our or any system of disclosure controls and procedures, however well designed and operated, can provide only reasonable assurance that the objectives of the system will be met and is subject to certain limitations, including the exercise of judgment in designing, implementing and evaluating controls and procedures and the assumptions used in identifying the likelihood of future events.

### **Management's Annual Report on Internal Control over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f). Management evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of internal control over financial reporting as of December 31, 2019. In conducting this evaluation, management used the framework established by the Committee of Sponsoring Organizations of the Treadway Commission as set forth in Internal Control – Integrated Framework (2013). Based on this evaluation under the framework in Internal Control – Integrated Framework (2013), management concluded that internal control over financial reporting was effective as of December 31, 2019.

Because of its inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will achieve its stated objectives under all future conditions.

This Annual Report on Form 10-K does not include an attestation report of the Company's independent public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this Annual Report on Form 10-K.

### **Changes in Internal Control over Financial Reporting**

There were no changes in internal controls over financial reporting during the fourth quarter ended December 31, 2019 that have materially, or are reasonably likely to materially affect, the Company's internal control over financial reporting.