Consolidated financial statements of

Mandalay Resources Corporation

December 31, 2018 and 2017

Mandalay Resources Corporation
December 31, 2018 and 2017

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Independent auditor's report

To the Shareholders of
Mandalay Resources Corporation

Opinion

We have audited the consolidated financial statements of **Mandalay Resources Corporation** and its subsidiaries [the "Group"], which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ["IFRS"].

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 are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Group incurred a net loss of $63.7 million during the year ended December 31, 2018 and, as of that date, the Group's current liabilities exceeded its total assets by $49.2 million. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

Management is responsible for the other information. The other information 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, and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion & Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 Group'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 Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group'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 Group'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 Group'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 Group 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 Group 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 Scott Kerr.

Ernst & Young LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
March 14, 2019

Mandalay Resources Corporation

Consolidated statements of loss and comprehensive loss

Year ended December 31, 2018 and 2017

(Expressed in U.S. dollars)

	Year ended December 31,	
	2018	2017
	($'000)	($'000)
Revenue (Note 14)	**112,168**	162,997
Cost of operations		
Cost of sales, excluding depletion and depreciation (Note 15)	**92,990**	107,111
Depletion and depreciation	**30,486**	40,258
	123,476	147,369
Income (loss) from mining operations	**(11,308)**	15,628
Expenses		
Administration (Note 16)	**5,867**	7,289
Care and maintanance and other operating expenses (Note 6)	**10,486**	12,815
Write down of assets (Note 5)	**34,645**	21,813
Share-based compensation (Note 12(b))	**773**	1,000
(Gain) loss on disposal of property, plant and equipment	**(748)**	575
	51,023	43,492
Loss from operations	**(62,331)**	(27,864)
Other income (expenses)		
Finance costs (Note 17)	**(5,580)**	(8,176)
Gain (loss) on financial instruments (Note 18)	**799**	(2,608)
Interest and other income	**898**	434
Foreign exchange loss	**(1,365)**	(1,717)
	(5,248)	(12,067)
Loss before income taxes	**(67,579)**	(39,931)
Income tax (recovery) expense (Note 13)		
Current	**(307)**	2,948
Deferred	**(3,554)**	(173)
Income tax (recovery) expense	**(3,861)**	2,775
Net loss for the year	**(63,718)**	(42,706)
Other comprehensive loss, net of tax		
Item that may subsequently be reclassified to net loss		
Foreign currency translation	**(7,542)**	8,875
Comprehensive loss for the year	**(71,260)**	(33,831)
Net loss per share		
Basic and diluted	**(0.14)**	(0.09)
Weighted average number of common shares outstanding (Note 19)		
Basic and diluted ('000)	**451,500**	451,247

See accompanying notes to the consolidated financial statements and going concern assumption note (note 2a)

Mandalay Resources Corporation

Consolidated statements of financial position
As at December 31, 2018 and 2017
(Expressed in U.S. dollars)

	December 31, 2018	December 31, 2017
	($'000)	($'000)
Assets		
Current assets		
Cash and cash equivalents	**8,395**	16,935
Trade receivables and other assets (Note 3)	**12,998**	27,186
Inventories (Note 4)	**13,829**	24,249
Prepaid expenses	**3,678**	2,850
	38,900	71,220
Non-current assets		
Reclamation and other deposits	**27,676**	35,924
Trade receivables and other assets (Note 3)	**2,747**	3,324
Property, plant and equipment (Note 5)	**168,380**	194,564
Intangible asset	**-**	29
	198,803	233,841
	237,703	305,061
Liabilities		
Current liabilities		
Trade and other payables (Note 7)	**26,204**	24,281
Borrowings (Note 8)	**32,064**	1,699
Five-year exchangeable loan (Note 9)	**25,235**	27,784
Income taxes payable	**120**	1,053
Other provisions (Note 11)	**1,778**	2,083
Financial instruments (Note 18)	**2,691**	3,567
	88,092	60,467
Non-current liabilities		
Borrowings (Note 8)	**3,821**	16,161
Reclamation and site closure costs provision (Note 10)	**40,674**	49,886
Other provisions (Note 11)	**1,527**	1,590
Deferred tax liability (Note 13)	**7,453**	11,418
	53,475	79,055
	141,567	139,522
Equity		
Share capital (Note 12)	**192,078**	191,893
Share option reserve (Note 12)	**10,404**	9,816
Foreign currency translation reserve	**(36,196)**	(28,654)
Retained deficit	**(70,150)**	(7,516)
	96,136	165,539
	237,703	305,061

Approved by the Board of Directors and authorized for issuance on March 14, 2019.

(Signed) Dominic Duffy
Dominic Duffy, President and Chief Executive Officer

(Signed) Robert Doyle
Robert Doyle, Director

See accompanying notes to the consolidated financial statements and going concern assumption note (note 2a)

Mandalay Resources Corporation

Consolidated statements of changes in equity

Year ended December 31, 2018 and 2017

(Expressed in U.S. dollars, except number of shares)

	Number of shares issued	Share capital	Share option reserve	Foreign currency translation reserve	Retained deficit	Total equity
	('000)	($'000)	($'000)	($'000)	($'000)	($'000)
Balance, December 31, 2016	**451,174**	**191,819**	**8,854**	**(37,529)**	**39,893**	**203,037**
Net loss	-	-	-	-	(42,706)	**(42,706)**
Other comprehensive gain for the year	-	-	-	8,875	-	**8,875**
Total comprehensive loss	-	-	-	8,875	(42,706)	**(33,831)**
Share-based compensation (Note 12(b))	-	-	1,036	-	-	**1,036**
Dividends paid (Note 12(e))	-	-	-	-	(4,703)	**(4,703)**
Redemption of RSU (Note 12(d))	106	74	(74)	-	-	-
Balance, December 31, 2017	**451,280**	**191,893**	**9,816**	**(28,654)**	**(7,516)**	**165,539**
Impact of IFRS 9 adoption (Note 2)	-	-	-	-	1,084	**1,084**
Balance, January 1, 2018	**451,280**	**191,893**	**9,816**	**(28,654)**	**(6,432)**	**166,623**
Net loss	-	-	-	-	(63,718)	**(63,718)**
Other comprehensive loss for the year	-	-	-	(7,542)	-	**(7,542)**
Total comprehensive loss	-	-	-	(7,542)	(63,718)	**(71,260)**
Share-based compensation (Note 12(b))	-	-	773	-	-	**773**
Redemption of RSU (Note 12(d))	316	185	(185)	-	-	-
Balance, December 31, 2018	**451,596**	**192,078**	**10,404**	**(36,196)**	**(70,150)**	**96,136**

See accompanying notes to the consolidated financial statements and going concern assumption note (Note 2a)

Mandalay Resources Corporation

Consolidated statements of cash flows

Year ended December 31, 2018 and 2017

(Expressed in U.S. dollars)

	Year ended December 31, 2018	2017
	($'000)	($'000)
Operating activities		
Net loss	**(63,718)**	(42,706)
Adjustments to reconcile net loss to net cash flows from operating activities		
Amortization of intangible asset	**29**	276
Depletion and depreciation	**30,486**	40,258
Share-based compensation (Note 12(b))	**773**	1,000
Loss on disposal of property, plant and equipment	**(748)**	575
Write down of assets	**34,645**	21,813
Finance cost (Note 17)	**5,580**	8,176
Gain (loss) on financial instruments (Note 18)	**(799)**	2,608
Interest and other income	**(898)**	(434)
Foreign exchange gain	**421**	2,677
Income tax expense (recovery)	**(3,861)**	2,775
Changes in non-cash operating working capital items		
Trade receivables and other assets	**11,800**	(179)
Inventories	**10,079**	2,183
Prepaid expenses	**(1,021)**	138
Trade and other payables	**2,817**	(4,303)
Other provisions	**(42)**	1,329
Cash generated from operations	**25,543**	36,186
Interest and other income received	**898**	434
Interest and bank charges paid	**(4,307)**	(6,271)
Income tax received (paid)	**1,741**	(2,860)
Net cash flows from operating activities	**23,875**	27,489
Investing activities		
Payment to reclamation deposits	**(238)**	(7,500)
Receipt from reclamation deposits	**4,861**	-
Reclamation expenditures	**(4,270)**	(1,667)
Expenditure for property, plant and equipment	**(51,284)**	(47,465)
Proceeds from disposal of property, plant and equipment	**1,350**	39
Net cash flows used in investing activities	**(49,581)**	(56,593)
Financing activities		
Proceeds from borrowings	**20,047**	16,243
Repayments of borrowings	**(4,478)**	(30,465)
Proceeds from Ulu option agreement	**310**	-
Dividends paid (Note 12(e))	**-**	(4,703)
Net cash flows from (used in) financing activities	**15,879**	(18,925)
Effects of exchange rate changes on the balance of cash and cash equivalents held in foreign currencies	**1,287**	(1,953)
Increase in cash and cash equivalents	**(8,540)**	(49,982)
Cash and cash equivalents, beginning of the year	**16,935**	66,917
Cash and cash equivalents, end of year	**8,395**	16,935
Cash and cash equivalents consist of		
Cash	**8,395**	16,935
	8,395	**16,935**

See accompanying notes to the consolidated financial statements and going concern assumption note (note 2a)

1. Description of business and nature of operations

Mandalay Resources Corporation ("Mandalay" or the "Company"), together with its wholly owned subsidiaries, is a gold, silver and antimony producer engaged in mining and related activities including acquisition, exploration, extraction, processing and reclamation. Mandalay's assets consist of the Costerfield gold and antimony mine in Australia, the Cerro Bayo silver and gold mine in Chile, the Björkdal gold mine in Sweden, as well as other exploration projects in Chile and Canada.

Mandalay is incorporated in the Province of British Columbia, Canada. The Company's shares are listed on the Toronto Stock Exchange ("TSX"). The head office and principal address of the Company is 76 Richmond Street East, Suite 330, Toronto, Canada, M5C 1P1. The Company's registered office is located at 1900-355 Burrard Street, Vancouver, British Columbia, V6C 2G8.

2. Summary of significant accounting policies

These consolidated financial statements have been prepared using accounting policies in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") effective for the year ended December 31, 2018, using the significant accounting policies outlined below.

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are measured at fair values as explained in the accounting policies set out below.

a) Going concern assumption

These consolidated financial statements were prepared on a going concern basis that contemplated the realization of assets and the settlement of liabilities in the normal course of business as they become due, except for the revaluation to fair value of certain financial assets and financial liabilities in accordance with the Company's accounting policies.

For the year ended December 31, 2018, the Company incurred a net loss of $63,718,000 (2017 - $42,706,000) and had an excess of current liabilities over current assets of $49,192,000. Further, as at December 31, 2018 the Company is in breach of various covenants of the Revolver Facility, which results in the outstanding amount classified as a current liability and limits the Company's ability to draw additional funds on the facility. The Company is facing liquidity challenges as a result of operational underperformance and the requirement to fund recent exchanges of the Company's five-year exchangeable loan.

The Company has initiated the following activities subsequent to December 31, 2018 in response to the liquidity challenges:

- On January 16, 2019, the Company drew down $5,000,000 of the remaining $10,000,000 of availability under the Facility.
- On February 11, 2019, the Company entered into a $8,000,000 convertible loan with CE Mining III MND Limited. This loan is subordinate to the HSBC revolving credit facility (see note 8) and bears interest at 10% per annum. The convertible loan will automatically be converted into common shares of the Company at a price of CAD$0.108 per share, if the Company's shareholders approve the exchange of the subscription receipts noted below.
- On February 20, 2019, the Company received a waiver in respect to the financial covenants associated with the Revolver Facility as at December 31, 2018 and March 31, 2019.
- On February 20, 2019, the Company closed a CAD$43,008,000 public offering of subscription receipts at a price of CAD$0.12 per subscription receipt (the "Public Offering"). Each subscription receipt will automatically be exchanged for one common share of the Company upon the satisfaction of certain conditions, including the receipt of shareholder approval for the issuance of such shares. These proceeds of the Public Offering, less 50% of the underwriters' commission payable in connection with the Public Offering, will remain in escrow, subject to shareholder approval at a special shareholder meeting that has been scheduled for March 29, 2018. In the event that approval from shareholders is not granted, the funds will be returned to holders of the subscription receipts.

2. Summary of significant accounting policies (continued)

(a) Going concern assumption (continued)

The ability of the Company to continue as a going concern is dependent on receiving the proceeds of the Public Offering (which is subject to receipt of shareholder approval) or securing additional funding from another source. There can be no assurance that the Company's shareholders will provide the requisite approval of the Public Offering in order to allow the Company to receive the proceeds of the Public Offering or that the Company will be able to secure any additional funding. As a result, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. These financial statements do not include adjustments to the recoverability and classification of recorded assets and liabilities and related expenses that might be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

b) Basis of consolidation

The consolidated financial statements of the Company include the results of entities (including structured entities) controlled by the Company. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power over the investee to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statements of loss and comprehensive loss from the date the Company gains control until the date when the Company ceases to control the subsidiary.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company have been eliminated in full on consolidation.

2. Summary of significant accounting policies (continued)

(b) Basis of consolidation (continued)

The principal subsidiaries of the Company as at December 31, 2018 and 2017 are as follows:

Subsidiary	Interest 2018	Interest 2017
	%	**%**
Mandalay Resources Australia Pty Ltd.[1]	**100**	100
Compania Minera Cerro Bayo Ltda[2]	**100**	100
Björkdalsgruvan AB.[3]	**100**	100
Mandalay Resources Finance Limited[4]	**100**	100

1 Mandalay Resources Australia Pty Ltd. ("MRA") owns the Costerfield gold and antimony mine in Australia.

2 Compania Minera Cerro Bayo Ltda ("Cerro Bayo") owns the Cerro Bayo silver and gold mine and exploration projects in Chile.

3 Bonito Capital Corp ("Bonito") owns the Björkdal gold mine in Sweden through its subsidiary, Björkdalsgruvan AB ("Björkdal"), and exploration projects in Canada.

4 Mandalay Resources Finance Limited ("MND Finance") was incorporated in the Cayman Islands. MND Finance borrowed $60,000,000 from Gold Exchangeable Limited at an interest rate of 5.875 percent. During the year to December 31, 2017, MND Finance purchased part of this facility and also changed certain terms (see Note 9).

c) Functional currency and foreign currency transactions

The Company's functional currency is the Canadian dollar as this is the principal currency of the economic environment in which it operates. The determination of the Company's functional currency requires analyzing facts that are considered primary factors, and if the result is not conclusive, the secondary factors. The analysis requires the Company to apply significant judgment since primary and secondary factors may be mixed. In determining its functional currency, the Company analyzed both the primary and secondary factors, including the currency of the Company's revenues, operating costs in the countries that it operates in, and sources of debt and equity financing.

MRA, Cerro Bayo and Björkdal have functional currencies of the Australian dollar, U.S. dollar and Swedish krona, respectively.

Transactions in foreign currencies are initially recorded in the respective entity's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at each reporting date. The translation gain/loss is recognized in the consolidated statements of loss and comprehensive loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated at the exchange rate on the date of the transaction. On consolidation, each respective entity's financial statements are translated into the presentation currency as outlined below.

The consolidated financial statements are presented in U.S. dollars. For presentation purposes, the assets and liabilities of the Company and its subsidiaries, including fair value adjustments arising on acquisition, are translated into U.S. dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated into U.S. dollars at the average exchange rate for the period in which the transaction arose. Exchange differences arising are recognized as a separate component of equity titled "foreign currency translation reserve". The consolidated financial statements have been presented in a currency other than the parent's functional currency as management has determined that the U.S. dollar is the common currency in which the Company's peers, being multi-jurisdictional mining companies, present their financial statements.

2. Summary of significant accounting policies (continued)

d) Business combinations

The consideration for each acquisition is measured at the aggregate of the fair values at the date of exchange of assets given, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in income or loss as incurred (unless they related to issue of debt/equity instruments).

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant international financial reporting standards. Changes in the fair value of contingent consideration classified as equity are not recognized.

Goodwill, if any, arising in a business combination is recognized as an asset at the date that control is acquired (the “acquisition date”). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquiree, if any, over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If the Company’s interest in the fair value of the acquiree’s identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held equity interest in the acquiree, if any, the excess is recognized immediately in income or loss as a bargain purchase gain.

Goodwill is not amortized but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company’s cash-generating units or groups of cash-generating units expected to benefit from the synergies of the combination.

Cash generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the gain or loss on disposal.

e) Cash and cash equivalents

The Company considers all the closing balances at bank and of highly liquid investments with remaining maturities of three months or less at the date of acquisition to be cash equivalents.

f) Inventories

Finished goods, work-in-process and stockpiled ore are valued at the lower of average production cost or net realizable value. Production costs include the cost of raw materials, direct labour, mine-site overhead expenses and depreciation and depletion of mining interests. Net realizable value is calculated as the estimated price at the time of sale based on prevailing and long-term metal prices less estimated future production costs to convert the inventories into saleable form and the costs necessary to make the sale.

In-process inventories represent materials that are currently in the process of being converted into finished goods. The average production cost of finished goods represents the average cost of in-process inventories incurred prior to the refining process, plus applicable refining costs and associated royalties.

Supplies are valued at the lower of average cost and net realizable value.

2. Summary of significant accounting policies (continued)

g) Property, plant and equipment

(i) *Exploration and evaluation*

Once a license to explore an area has been secured, expenditures on exploration and evaluation activities are capitalized within property, plant and equipment.

The Company records its capitalized exploration and evaluation at cost. The capitalized cost is based on cash paid, the value of share consideration and exploration costs incurred. The recoverable values are not always readily determinable and are dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

All costs related to the acquisition, exploration and evaluation of these interests are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are moved into development or production, sold or management has determined there to be an impairment of the value.

Management reviews the carrying value of capitalized exploration and evaluation costs for indicators of impairment at each reporting date. In the case of undeveloped projects, there may be only inferred resources to form a basis for the impairment review. The review is based on a status report regarding the Company's intentions for development of the undeveloped property. In some cases, the undeveloped properties are regarded as successors to ore bodies currently in production. Where this is the case, it is intended that these will be developed and go into production when the current source of ore is exhausted or to replace the reduced output.

Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to mining interests within property, plant and equipment.

(ii) *Mining interests*

Mining interests represent capitalized expenditures related to the development of mining properties, acquisition costs, capitalized borrowing costs (Note 2(h)), expenditures related to exploration and evaluation transferred in and estimated site closure and reclamation costs.

Capitalized costs are depleted over the estimated economic life of the mine using the method as explained in depletion and depreciation (Note 2(f)(iv)) below.

(iii) *Plant and equipment*

Plant and equipment are recorded at cost less accumulated depreciation, depletion and impairment charges.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment.

Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized. Any remaining book value associated with the component being replaced is derecognized upon its replacement. Directly attributable costs incurred for major capital projects and site preparation are capitalized until the asset is brought to a working condition for its intended use. These costs include dismantling and site restoration costs to the extent these are recognized as a provision.

2. Summary of significant accounting policies (continued)

(g) Property, plant and equipment (continued)

(iv) <u>Depletion and depreciation</u>

Depletion

Mining interests are depleted to estimated residual value using the unit-of-production method based on the estimated total saleable metal ounces contained in a life of mine plan that includes Proven and Probable Reserves as well as any Measured, Indicated and Inferred Resources that are not yet converted to Reserves but that Management believes are highly likely to be converted to Reserves and eventually mined.

Depreciation

Management reviews the estimated useful lives, residual values and depreciation methods of the Company's property, plant and equipment at the end of each reporting period and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

Plant and equipment cost is depreciated, using the straight-line method over their estimated useful lives, if shorter than the mine life, otherwise they are depleted on the unit-of-production basis, as outlined above.

Plant and equipment include building, plant and equipment, vehicles, furniture and fixtures and computer equipment and their estimated useful lives range from 2.5 years to 10 years.

Assets under construction are not depreciated until their construction is substantially complete and they are available for their intended use. In the case of projects involving the development of mineral properties, this is when the property has achieved commercial production.

h) Impairment of long-lived assets

The Company reviews and evaluates its property, plant and equipment for indicators of impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable or at least at the end of each reporting period. If an indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. 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. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Future cash flows are estimated based on expected future production, commodity prices, operating costs and capital costs.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future 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.

Impairment losses are recognized in income or loss.

An impairment loss is reversed if there is an indication that there has been a change in the original conditions that resulted in the impairment being recognized. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation, if no impairment loss had been recognized.

2. Summary of significant accounting policies (continued)

i) Borrowing costs

Borrowing costs related to the costs of developing mining properties and constructing new facilities are capitalized and included in the carrying amounts of the related assets until mining properties reach commercial production and facilities are ready for their intended use.

The amount of borrowing costs capitalized (before effects of income tax) during the year is determined by applying the interest rate applicable to appropriate borrowings outstanding during the year to the average amount of capitalized expenditures for the qualifying assets during the year. Where any borrowing costs are incurred specifically in relation to a qualifying asset, they are allocated directly to the asset to which they relate and are excluded from the aforementioned calculation.

All other borrowing costs are recognized in income or loss in the period in which they are incurred.

j) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with infinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

k) Site closure and reclamation cost 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 constructively required to remediate. The liability is recognized at the time the environmental disturbance occurs and the resulting costs are capitalized to the corresponding asset. The provision for site closure and reclamation liabilities is estimated using expected cash flows based on engineering and environmental reports prepared by third-party industry specialists and discounted at a pre-tax rate specific to the liability. The capitalized amount is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows or the discount rate. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows.

Changes in site closure and reclamation estimates are accounted for as a change in the corresponding capitalized cost.

Costs of site closure and reclamation projects for which a provision has been recorded are recorded directly against the provision as incurred, most of which are incurred at the end of the life of the mine.

l) Income taxes

The Company uses the liability method of accounting for income taxes. Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable income and on the carry forward of tax losses and tax credits. Deferred tax liabilities are generally recognized for all taxable temporary differences except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that affects neither accounting nor taxable income at the time of the transaction. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable income will be available against which those deductible temporary differences can be utilized.

2. Summary of significant accounting policies (continued)

(l) Income taxes (continued)

The Company recognizes a deferred tax asset for deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable income will be available against which the temporary difference can be utilized. The Company recognizes a deferred tax liability for taxable temporary differences associated with investments in subsidiaries, except to the extent that the Company is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognized as an expense or recovery in income or loss, except when they relate to items that are recognized outside of income or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside income or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Judgment is required to determine which arrangements are considered to be a tax on income as opposed to an operating cost. Judgment is also required to determine whether deferred tax assets are recognized in the consolidated statements of financial position. Deferred tax assets, including those arising from unutilized tax losses, require the Company to assess the likelihood that the group will generate sufficient taxable income in future periods in order to utilize recognized deferred tax assets. Judgment is also required about the application of existing tax laws in each jurisdiction.

Assumptions about the generation of future taxable income depend on management’s estimates of future cash flows. These estimates of future taxable income are based on forecasted cash flows from operations (which are impacted by production and sales volumes, commodity prices, reserves, operating costs, closure and rehabilitation costs, capital expenditures, dividends and other capital management transactions).

To the extent that future cash flows and taxable income differ significantly from these estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

m) Employee benefits

A liability is recognized for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and it is capable of being measured reliably. Liabilities recognized in respect of employee benefits due to be settled within 12 months are measured using the remuneration rate expected to apply at the time of settlement.

Liabilities recognized in respect of employee benefits which are not due to be settled within one year are measured at the present value of the estimated future cash outflows to be made by the Company in respect of services provided by employees up to the reporting date.

2. Summary of significant accounting policies (continued)

n) Revenue

The Group is principally engaged in the business of producing metal concentrate. Revenue from contracts with customers is recognized when control of the goods is transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods. The Company has generally concluded that it is the principal in its revenue contracts because it typically controls the goods or services before transferring them to the customer.

Prior to January 1, 2018, revenue was measured at the fair value of the consideration received or receivable. Revenue from the sale of metals was recognized when all of the following conditions were satisfied:

- the significant risks and rewards of ownership have been transferred to the purchaser;
- the Company does not retain continuing managerial involvement to the degree usually associated with ownership or effective control over the metals sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Company; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue on these sales is initially recognized at the current market price. The receivables relating to provisionally priced sales are marked to market at each reporting date using the forward price for the period equivalent to that outlined in the contract which represent an embedded derivative. This mark to market adjustment is recognized in revenue, but is not considered to be revenue from contracts with customers.

o) Share-based payments

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in Note 12(c).

The fair value determined using a valuation technique (e.g., Black-Scholes option pricing model) at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Company's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in income or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share option reserve.

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Cash-settled transactions

The cost of cash-settled transactions is measured initially at fair value at the grant date using the Black-Scholes option pricing model, further details of which are given in Note 12(c). This fair value is expensed over the period until the vesting date with recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in share-based compensation.

2. Summary of significant accounting policies (continued)

p) Financial Instruments

Financial assets and liabilities

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through other comprehensive income ("FVOCI"), or fair value through profit or loss ("FVTPL").

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient for contracts that have a maturity of one year or less, are measured at the transaction price determined under IFRS 15 (see note 2(n)).

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the "SPPI test" and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognised on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company classifies its financial assets into the following categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at FVOCI, with gains or losses recycled to profit or loss on derecognition (debt instruments)
- Financial assets at FVOCI, with no recycling of gains or losses o profit or loss on derecognition (equity instruments)
- Financial assets at FVTPL

Financial assets at amortised cost (debt instruments)

The Company measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows And
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortised cost are subsequently measured using the effective interest rate ("EIR") method and are subject to impairment. Interest received is recognised as part of interest and other income. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Company's financial assets at amortised cost include trade receivables (not subject to provisional pricing), other receivables. Refer below to 'Financial assets at fair value through profit or loss' for a discussion of trade receivables that are subject to provisional pricing.

2. Summary of significant accounting policies (continued)

(p) IFRS 9, Financial Instruments (continued)

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, e.g., derivative instruments, financial assets designated upon initial recognition at fair value through profit or loss, e.g., debt or equity instruments, or financial assets mandatorily required to be measured at fair value, i.e., where they fail the SPPI test. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that do not pass the SPPI test are required to be classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss.

As IFRS 9 now has the SPPI test for financial assets, the requirements relating to the separation of embedded derivatives is no longer needed for financial assets. An embedded derivative will often make a financial asset fail the SPPI test thereby requiring the instrument to be measured at fair value through profit or loss in its entirety. This is applicable to the Company's trade receivables (subject to provisional pricing). These receivables relate to sales contracts where the selling price is determined after delivery to the customer, based on the market price at the relevant QP stipulated in the contract. This exposure to the commodity price causes such trade receivables to fail the SPPI test. As a result, these receivables are measured at fair value through profit or loss from the date of recognition of the corresponding sale, with subsequent movements being recognized in revenue in the consolidated statement of loss and comprehensive loss.

Derecognition

A financial asset is derecognized when the rights to receive cash flows from the asset have expired or when the Company has transferred its rights to receive cash flows from the asset.

Impairment of financial assets

For trade receivables and contract assets, the Company applies a simplified approach in calculating ECLs and recognizes a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, borrowings and five-year exchangeable loan.

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

2. Summary of significant accounting policies (continued)

(p) IFRS 9, Financial Instruments (continued)

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the consolidated statement of loss and comprehensive loss.

Loans and borrowings and trade and other payables

After initial recognition, interest-bearing loans and borrowings and trade and other payables are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in the consolidated statement of loss and comprehensive loss when the liabilities are derecognised, as well as through the EIR amoritzation process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the consolidated statement of loss and comprehensive loss.

This category generally applies to interest-bearing loans and borrowings and trade and other payables.

Derecognition

A financial liability is derecognized when the associated obligation is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss.

q) Loss per share

Basic loss per share is computed by dividing the net income attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period.

Diluted loss per share is computed similar to basic loss per share except that the weighted average number of common shares outstanding is increased to include additional shares for the assumed exercise of stock options.

The number of additional shares is calculated by assuming that outstanding dilutive stock options were exercised and that the proceeds from such exercise (after adjustment of any unvested portion of stock options) were used to acquire common shares at the average market price during the reporting period.

r) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and when a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

2. Summary of significant accounting policies (continued)

s) Fair value measures

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the group determines whether transfers have occurred between the levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

t) Critical judgments and accounting estimates

In the application of the Company's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Following are the items involving significant judgments:

- going concern assumption (Note 2(a))
- determination of functional currency (Note 2(c));
- indicator of impairment (Notes 2(h) and 5).

Following are the items involving significant estimates:

- fair value of financial instruments (Notes 2(s) and 22);
- impairment of long-lived assets (Notes 2(h) and 5);
- reserve estimates (see below);
- the anticipated cost of reclamation and closure cost obligations (Notes 2(k) and 10); and
- unit-of-production depreciation (Notes 2(g)(iv) and 5).

2. Summary of significant accounting policies (continued)

(t) Critical judgments and accounting estimates (continued)

Reserve estimates

The Company estimates its ore reserves and mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101, *Standards for Disclosure of Mineral Projects* ("NI 43-101"). Reserves are used in the calculation of depreciation and depletion, impairment assessment, assessment of life of mine stripping ratios and for forecasting the timing of payment of mine closure, reclamation and rehabilitation costs.

There are numerous uncertainties inherent in estimating ore reserves, and assumptions that are valid at the time of estimation may change significantly when new information becomes available. Changes in the forecast prices of commodities, exchange rates, production costs or recovery rates may change the economic status of reserves and may, ultimately, result in the reserves being updated.

Estimated recoverable saleable metal ounces contained in the life of mine plan are used in determining the depreciation and/or amortization of mine-specific assets. This results in a depreciation charge proportional to the depletion of the anticipated remaining life-of-mine production. The life of each item, which is assessed at least annually, has regard to both its physical life limitations and present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimates of future capital expenditure.

The calculation of the unit of production rate of depreciation could be impacted to the extent that actual production in the future is different from current forecast production based on economically recoverable reserves, or if future capital expenditure estimates change. Changes to economically recoverable reserves could arise due to changes in the factors or assumptions used in estimating reserves, including:

- The effect on economically recoverable reserves of differences between actual commodity prices and commodity price assumptions.
- Unforeseen operational issues.
- New exploration information.
- Sustained rise or fall in operating costs.

Changes in estimates are accounted for prospectively.

u) New accounting pronouncements

The accounting policies adopted in preparation of the consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2017, except for the adoption of amendments and interpretations effective January 1, 2018. These amendments and interpretations are outlined below.

(a) IFRS standards effective for annual periods beginning on or after January 1, 2018

Effective January 1, 2018, the Company adopted new and revised IFRS standards that were issued by the IASB. The application of the adopted standards has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements, other than as noted.

IFRS 15, Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and amended in April 2016. It establishes a new five-step model that will apply to revenue arising from contracts with customers. Under IFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

2. Summary of significant accounting policies (continued)

(u) New accounting pronouncements (continued)

(a) IFRS standards effective for annual periods beginning on or after January 1, 2018 (continued)

The principles in IFRS 15 provide a more structured approach to measuring and recognizing revenue. The Company has applied the modified retrospective approach under the transition provisions of IFRS 15.

The implementation of the new standard, effective January 1, 2018, has not had a significant financial statement impact in year ended December 31, 2018.

One impact noted for the Company is that its provisional pricing adjustments (as described below) do not meet the definition of revenue from customers under IFRS 15. Provisional pricing represents an embedded derivative that is accounted for under IFRS 9, Financial Instruments. The adjustments still form part of the revenue amount, and therefore a breakdown has presented in Note 14. IFRS 15 has been applied in accounting for revenue for the year ended December 31, 2018. In the comparative year, revenue was accounted for in accordance with the revenue recognition policy disclosed in the Company's December 31, 2017 annual audited consolidated financial statements.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9, which reflects all phases of the financial instruments project and replaces IAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in equity and reserves as at January 1, 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The following table summarises the impact of transition to IFRS 9 on the opening consolidated statement of financial position:

	Balance December 31, 2017	IFRS 9 Adjustment	Adjusted opening balance - January 1, 2018
	$'000	$'000	$'000
Five-year exchangeable loan (Current liability)	27,784	(1,084)	26,700
Retained deficit (earnings)	(7,516)	1,084	(6,432)

This IFRS 9 adjustment is a result of the accounting for the modification of the exchangeable loan that occurred on May 26, 2017. Under IAS 39, modification gains can be amortized over the remaining term of the liability. Under IFRS 9, modification gains are required to be recorded immediately in profit or loss.

2. Summary of significant accounting policies (continued)

(u) New accounting pronouncements (continued)

(a) IFRS standards effective for annual periods beginning on or after January 1, 2018 *(continued)*

Financial assets

IFRS 9 includes a revised model for classifying financial assets, which results in classification according to a financial instrument's contractual cash flow characteristics and the business models under which they are held. At initial recognition, financial assets are measured at fair value. Under the IFRS 9 model for classification of financial assets the Company has classified and measured its financial assets as described below:

- Cash and cash equivalents, other receivables, and reclamation and other deposits are classified as financial assets measured at amortized cost. Previously under IAS 39 these amounts were classified as loan and receivables.
- Marketable securities continue to be classified as fair value through profit or loss, under IFRS
- Trade receivables are classified as financial assets at fair value through profit or loss and measured at fair value during the provisional pricing period until the final settlement price is determined. Once the final settlement price is determined, trade receivables are classified as financial assets measured at amortized cost. Previously under IAS 39, trade receivables were classified as loans and receivables measured at amortized cost except for the provisional pricing adjustment that was measured at fair value through profit or loss.

Financial liabilities or equity

IFRS 9 introduces a single expected credit loss impairment model, which is based on changes in credit quality since initial recognition. The adoption of the expected credit loss impairment model did not have a significant impact on the Company's financial statements and did not result in a transitional adjustment.

Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective interest basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash flows over the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

2. Summary of significant accounting policies (continued)

(u) New accounting pronouncement (continued)

(b) Accounting standard issued but not yet effective

The Company has not early adopted these new and amended standards. The Company plans to adopt the new standards on the required effective dates. Of the other standards and interpretations that are issued, but not yet effective, they are not expected to impact the Company and have not been listed here. For avoidance of doubt, the following standards are expected to impact the Company.

IFRS 16, Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the *Substance of Transactions* Involving the Legal Form of a Lease.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

IFRS 16 is effective for annual periods beginning on or after January 1 2019. Early application is permitted, but not before an entity applies IFRS 16. The Company has chosen to apply the modified retrospective approach for IFRS 16. During 2018, the Company initiated contract assessment and review for lease and other relevant contracts. The Company expects that certain contracts previously identified as operating leases prior to January 1, 2019 will result in a right of use asset and related lease obligation to be recorded on the consolidated statement of financial position. The Company is currently assessing the impact of adopting IFRS 16.

3. Trade receivables and other assets

Trade receivables and other assets consist of the following:

	2018	2017
	($'000)	($'000)
Trade receivables	**8,036**	22,576
VAT and other indirect tax receivables	**3,933**	4,399
Other receivables and assets	**3,703**	3,376
Marketable securities (Note 18)	**73**	159
	15,745	30,510
Less: non-current portion	**2,747**	3,324
Total current portion	**12,998**	27,186

The Company had no allowance for doubtful accounts recognized as at December 31, 2018 and 2017.

4. Inventories

Inventories consist of the following:

	2018	2017
	($'000)	($'000)
Finished goods	**5,756**	9,668
Work in progress and stockpiled ore	**2,305**	2,990
Consumables	**5,768**	11,591
	13,829	24,249

The amount of inventories recognized in cost of operations for the year ended December 31, 2018 was $123,476,000 (2017 – $147,369,000).

During the year ended December 31, 2018, the Company has recognized a write-down of consumables amounting to $5,073,000 at Cerro Bayo (2017 – $nil).

There was no write down of work in progress and stockpiled ore at Costerfield or Björkdal during the year ended December 31, 2018 (2017 – $655,000 at Costerfield).

5. Property, plant and equipment

Particulars	Mining interests			Plant and equipment				Exploration and evaluation				Total
	Costerfield	Cerro Bayo	Björkdal	Costerfield	Cerro Bayo	Björkdal	Others	Costerfield	Cerro Bayo	Björkdal	Others	
	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)	($'000)
Cost												
As at January 1, 2017	64,768	69,875	59,042	29,150	51,098	19,496	289	5,855	1,814	15,036	40,880	**357,303**
Additions	2,437	6,355	14,601	4,505	2,216	9,714	55	4,020	1,018	1,867	4,729	**51,517**
Disposals	-	-	-	(584)	(2,647)	-	-	-	-	-	-	**(3,231)**
Write-down of assets	-	(11,916)	-	-	(6,135)	-	-	(552)	(1,726)	-	(1,484)	**(21,813)**
Reclassification to mining interest	1,038	-	705	-	-	-	-	(1,038)	-	(705)	-	**-**
Transferred from Asset held for sale	-	-	-	-	-	-	2,644	-	-	-	6,726	**9,370**
Foreign exchange	4,421	-	4,250	2,486	-	2,323	(190)	536	-	143	286	**14,255**
As at December 31, 2017	**72,664**	**64,314**	**78,598**	**35,557**	**44,532**	**31,533**	**2,798**	**8,821**	**1,106**	**16,341**	**51,137**	**407,401**
Additions	10,242	-	10,891	6,961	-	15,566	1	5,242	-	1,785	2,652	**53,340**
Disposals	-	-	-	(1,017)	(2,196)	-	-	-	-	-	-	**(3,213)**
Write-down of assets	-	(8,470)	-	-	-	-	-	(36)	(321)	-	(25,818)	**(34,645)**
Reclassification to mining interest	4,534	-	-	-	-	-	-	(4,534)	-	-	-	**-**
Change in estimate of reclamation bond	-	-	-	-	-	-	-	-	-	-	(6,051)	**(6,051)**
Foreign exchange	(7,027)	-	(8,258)	(3,907)	-	(3,366)	(62)	(729)	-	(48)	(443)	**(23,840)**
As at December 31, 2018	**80,413**	**55,844**	**81,231**	**37,594**	**42,336**	**43,733**	**2,737**	**8,764**	**785**	**18,078**	**21,477**	**392,992**
Accumulated depreciation												
As at January 1, 2017	44,127	51,442	15,968	12,236	37,026	7,217	469	-	-	-	-	**168,485**
Expense	8,123	4,402	12,735	6,309	5,223	3,437	31	-	-	-	-	**40,260**
Disposals	-	-	-	(395)	(2,223)	-	-	-	-	-	-	**(2,618)**
Foreign exchange	3,200	-	1,401	1,161	-	940	8	-	-	-	-	**6,710**
As at December 31, 2017	**55,450**	**55,844**	**30,104**	**19,311**	**40,026**	**11,594**	**508**	**-**	**-**	**-**	**-**	**212,837**
Expense	9,657	-	9,961	5,697	1,651	3,550	-	-	-	-	-	**30,516**
Disposals	-	-	-	(875)	(2,064)	-	-	-	-	-	-	**(2,939)**
Foreign exchange	(5,288)	-	(6,324)	(2,268)	-	(1,912)	(10)	-	-	-	-	**(15,802)**
As at December 31, 2018	**59,819**	**55,844**	**33,741**	**21,865**	**39,613**	**13,232**	**498**	**-**	**-**	**-**	**-**	**224,612**
Carrying value												
As at January 1, 2017	20,641	18,433	43,074	16,914	14,072	12,279	(180)	5,855	1,814	15,036	40,880	**188,818**
As at December 31, 2017	17,214	8,470	48,494	16,246	4,506	19,939	2,290	8,821	1,106	16,341	51,137	**194,564**
As at December 31, 2018	**20,594**	**-**	**47,490**	**15,729**	**2,723**	**30,501**	**2,239**	**8,764**	**785**	**18,078**	**21,477**	**168,380**

5. Property, plant and equipment (continued)

For the year ended December 31, 2018, there was no plant and equipment depreciation capitalized to mining interests at Cerro Bayo (2017 – $379,000), $394,000 at Björkdal (2017 – $45,000) and none at Costerfield (2017 – $nil).

The following table details the write-down of assets for the Company for the years ended 31 December 2018 and 2017. The detail of each is outlined further below:

	2018	2017
	($'000)	($'000)
Challacollo	**23,918**	-
Costerfield	**36**	552
Cerro Bayo	**8,791**	19,777
La Quebrada	**1,900**	-
Ulu/Lupin	**-**	1,484
Total write-down of assets	**34,645**	21,813

Cerro Bayo

On June 9, 2017, flooding occurred in the Delia NW mine at the Company's Cerro Bayo operations. Since that date, mining operations have been temporarily suspended pending investigation, risk assessment of restarting, and receipt of the several regulatory permits needed for the Life of Mine plan.

As a result of this incident, the Company recognized $777,000 write down of residual mining interests in the Delia NW mine after competing an impairment test as at June 30, 2017. As part of the review of indicators of impairment as at December 31, 2017, the Company determined that the extended delay in the ability to obtain the required permits to restate the mine was an indicator of impairment for the Cerro Bayo cash generating unit. The Company calculated the recoverable amount based on fair value less cost to sell and determined that the recoverable amount was below the carrying value and as a result a write-down of $19,000,000 was booked to the consolidated statement of comprehensive income. The key assumptions in determining the recoverable amount were a long-term gold price of $1,300 per ounce and long-term silver price of $19.50 per ounce and a discount rate of 6.5% after tax.

As part of the review of indicators of impairment as at December 31, 2018, the Company determined that continuing delays in obtaining the required permits to restate the mine was an indicator of impairment for the Cerro Bayo cash generating unit. The Company has written-down the minerals properties balance as it was determined that the recoverable amount was below the carrying value. As a result, the Company recognised a further impairment of $8,791,000 in the consolidated statement of comprehensive loss for the year ended December 31, 2018. The Company determined the recoverable amount of the mining interest was $nil based on the prospects of obtaining permits to mine the related resources.

5. Property, plant and equipment (continued)

Costerfield and Cerro Bayo

For the year ended December 31, 2018, the Company decided not to pursue certain exploration projects and recorded a write down of $36,000 at Costerfield (2017 - $522,000) and $321,000 at Cerro Bayo (2017 – $1,726,000).

Exploration and evaluation – others

(i) *Challacollo*

On August 1, 2018, the Company announced that it had entered into a non-binding letter of intent with Aftermath Silver Ltd. ("Aftermath") pursuant to which Aftermath would acquire Minera Mandalay Challacollo Limitada ("MMC"), a wholly-owned subsidiary of the Company which owns the Challacollo project, in exchange for total consideration of CAD$11,625,000. As part of the annual impairment review at December 31, 2018, the Company identified an indicator of impairment for this asset due to a change in the recoverable amount based on updated terms since the original non-binding letter of intent. The Company has valued the asset at fair value less costs to sell. As a result of this, an impairment of $23,918,000 was recognized for the full year ended December 31, 2018.

(ii) *La Quebrada*

La Quebrada is a non-core asset and the Company has suspended all exploration activities.

As part of the annual impairment review as at December 31, 2018, the Company determined that the lower copper market price and continued lack of activity was considered an indicator of impairment for the La Quebrada asset. This asset was therefore valued using the market multiple approach based on comparable assets, and the Company has recognized an impairment of $1,900,000 for the year ended December 31, 2018.

(iii) *Ulu and Lupin*

The Ulu and Lupin gold projects in Nunavut, Canada are currently classified as non-core assets. The Company has performed an impairment review of these projects at year end and it was determined that no impairment was required to be was recognised for the year ended December 31, 2018 (2017 – $1,484,000 impairment was recognised).

(a) *Royalties*

(i) *Costerfield*

The Company is required to pay a 2.75% NSR to the government in Australia. During the year ended December 31, 2018, the Company paid NSR in the amount of $552,000 (2017 – $684,000) which is recorded as part of cost of sales.

(ii) *Björkdal*

The Company is required to pay NSR of 0.2% of the average gold price of the production, one fourth of that amount is to be paid to the Swedish government and the remainder to the owners of the land. During the year ended December 31, 2018, the Company paid NSR in the amount of $52,000 (2017 – $59,000) which is recorded as part of cost of sales.

6. Care and maintenance and other operating expenses

During the year ended December 31, 2018, the Company recognized $10,486,000 of expenses relating to care and maintenance and other costs (2017 – $12,815,000). In 2018, the amount included $5,073,000 of impairment of consumables at Cerro Bayo (2017 – $nil) and also a $828,000 insurance credit from mining equipment received relating to the flooding incident that occurred at Cerro Bayo on June 9, 2017.

7. Trade and other payables

	2018	2017
	($'000)	($'000)
Trade payables	**17,146**	13,870
Accrued liabilities	**7,189**	6,499
Payroll and other taxes payable	**1,828**	3,820
Cash election option (Note 12(c))	**4**	1
Provisional pricing adjustment	**37**	91
	26,204	24,281

Trade payables are non-interest bearing and are normally settled on one-month terms. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

Sales of certain commodities are provisionally priced such that the price is not settled until a predetermined future date based on the market price at that time. Revenue for these sales is initially recognized at the current market price. Provisionally priced sales are marked to market at each reporting period date using the forward price for the period equivalent to that outlined in the contract.

As at December 31, 2018, there was $37,000 mark-to-market adjustment recorded in trade and other payables (2017 – $91,000).

8. Borrowings

	2018	2017
	($'000)	($'000)
Liability for the Revolver facility	**30,000**	14,721
Borrowings for loan/lease facility	**5,885**	3,139
	35,885	17,860
Less: Current portion of total borrowings	**32,064**	1,699
Non-current portion of total borrowings	**3,821**	16,161

8. Borrowings (continued)

Revolver facility

During the year ended December 31, 2018, the Company entered into a $40,000,000 senior secured revolving credit facility (the "Revolver Facility") with HSBC Bank Canada ("HSBC"). The Revolver Facility matures on July 24, 2020, three years after the agreement date.

Amounts drawn on the Revolver Facility bears interest at LIBOR plus 3.5%-4.5% per annum or at HSBC's "base rate" plus 2.5%-3.5%, depending on the Company's leverage ratio. The undrawn portion of the Revolver Facility is subject to a standby fee of 1.0% per annum. The Revolver Facility is secured by a first ranking security interest over substantially all of the Company's assets, excluding the Company's Australian subsidiaries and its Costerfield mine and subject to permitted liens. As required by the terms, the Company has suspended dividends on its common shares. In order to satisfy cash flow requirements to the Costerfield mine, on December 21, 2018, the Company entered into an amended agreement with HSBC to allow for the remaining $10,000,000 to be drawn by directly by the Costerfield operating company directly. In return for this, the Company has provided HSBC a general security of the operating assets of Costerfield for any drawn amount.

The facility has the below mentioned financial covenants:

- Interest Coverage Ratio of not less than 3.00:1.00 at all times (consolidated basis, calculated on rolling four-quarter basis);
- Leverage Ratio of not more than 3.00:1.00 at all times;
- Tangible Net Worth of not less than $105.0 million plus 50% of net income (cumulative) earned after Closing Date; and
- Current Ratio of not less than 1.20:1.00.

As at December 31, 2018 the Company was in breach of all of the above covenants for this facility. On February 20, 2019, and associated with the Public Offering (see Note 24), the Company has received a waiver for all of these financial covenants for the quarters ending December 31, 2018 and March 31, 2019. Due to the fact that the waiver was received after the statement of financial position date, the outstanding amount under the Revolver Facility has been classified as a current liability as at December 31, 2018.

During the year ended December 31, 2018, the Company had drawn down $30,000,000 from the Revolver Facility. Subsequent to December 31, 2018 the Company drew down an additional $5,000,000 (see Note 26 for detail).

Björkdal Equipment loans

As at December 31, 2018, the Company's Björkdal mine in Sweden had a balance of $547,000 (2017 – $372,000) for an equipment loan facility (the "Equipment Facility") with a local Swedish bank to finance certain capital expenditures. The Equipment Facility bears variable interest at the three-month STIBOR plus 2.16% per annum and is repayable in monthly installments plus interest over a term finishing 9 months from the year ended December 31, 2018. The Equipment Facility is secured by the underlying equipment and by a corporate guarantee provided by the Company.

In addition to the Equipment Facility, Björkdal also has equipment leases totalling $4,229,000 (2017 – $2,767,000). These leases financed 80% of the equipment purchase cost, bear interest at the one-month STIBOR plus 2.05%-3.21% per annum and require monthly lease payments. These leases are payable within 5 years of initial borrowing. Certain leases also have an equipment buy-out option at the end of the lease terms equal to 10% of the original equipment purchase cost.

As at December 31, 2018, the current portion of the above facilities is $1,537,000 (2017 – $1,699,000) and the non-current portion is $3,239,000 (2017 – $1,440,000).

Future minimum payments under the equipment loans as at December 31, 2018 and 2017 are as follows:

8. Borrowings (continued)

Costerfield Equipment lease

As at December 31, 2018, the Company's Costerfield mine in Australia, had a balance of $1,108,000 (December 31, 2017 – $nil) for an equipment lease facility. These leases financed bear interest at 5.50% per annum and require monthly lease payments. These leases are due to be repaid during the year ended July 31, 2023.

As at December 31, 2018, the current portion of the above facilities is $526,000 (December 31, 2017 – $nil) and the non-current portion is $582,000 (December 31, 2017 – $nil).

			2018
	Less than 1 year	**Between 1- 4 years**	**Total**
	($'000)	($'000)	($'000)
Principal repayments of equipment loans	224	323	**547**
Minimum future lease payments for equipment leases	1,839	3,498	**5,337**
	2,063	3,821	**5,884**
Interest portion on lease payments for equipment leases	56	92	148
Total borrowings, including interest portion	**2,119**	**3,913**	**6,032**

			2017
	Less than 1 year	**Between 1- 4 years**	**Total**
	($'000)	($'000)	($'000)
Principal repayments of equipment loans	372	-	**372**
Minimum future lease payments for equipment leases	1,327	1,440	**2,767**
	1,699	1,440	**3,139**
Interest portion on lease payments for equipment leases	27	29	56
Total borrowings, including interest portion	**1,726**	**1,469**	**3,195**

9. Five-year exchangeable loan

In May, 2014, Mandalay issued $60 million of debt securities at an interest rate of 5.875% for proceeds of $60,000,000 by way of a concurrent offering of senior exchangeable bonds (the "Bonds") issued by Gold Exchangeable Limited (the "Issuer"), an unaffiliated special purpose vehicle incorporated in Jersey. The Company, through its wholly owned subsidiary Mandalay Resources Finance Limited, borrowed the proceeds of the Bond offering from the Issuer under the terms of a loan agreement and related funding agreement (the "Loan") which together mirror the principal terms of the Bonds.

Each Bond holder had the right to exchange the principal amount of its Bonds for shares in the SPDR Gold Trust ("Gold Shares") based on the then applicable exchange price. The exchange price is subject to adjustment in the event of changes to the constitution of the SPDR Gold Trust (e.g., share splits and consolidation) or changes to the way in which net asset value ("NAV") of the SPDR Gold Trust or Gold Shares is calculated.

If a Bond holder exercises its exchange rights, the Issuer will give notice to the Company, and the Company will be required to deliver the requisite number of Gold Shares to the Bond holder.

The Issuer may redeem the Bonds at its option:

- if the closing price of the Gold Shares exceeds 130% of the exchange price for at least 20 trading days in any 30-consecutive trading day period; or
- if $9,000,000 or less in the principal amount of the Bonds remains outstanding.

9. Five-year exchangeable loan (continued)

The Company has equivalent redemption rights with respect to the Loan. If the Company exercises its redemption rights under the Loan, the Issuer will exercise its optional redemption rights under the Bonds.

As the Bond holders have the right to exchange the principal amount for Gold Shares at any time, the Company has classified the carrying amount as of the Loan as a current liability, determined using the effective interest rate method, in the consolidated statements of financial position of the Company as at December 31, 2018 and 2017. The right to exchange the principal amount into Gold Shares represents an embedded derivative and is fair-valued at each reporting date (see Note 17).

Repurchase and Amendment of Bonds

On May 26, 2017, the Issuer repurchased $29,950,000 of the Bonds from the bond holders thereof at a premium of 105% of their principal amount resulting in a remaining principal amount of $30,050,000.

In connection with the partial repayment of the Bonds, the following amendments have been made to the terms of the remaining Bonds:

- extending the maturity date of the Bonds to May 13, 2022;
- deleting a condition of the Bonds which required that beginning on May 14, 2017, as additional security for the Bonds, the Issuer was required to start depositing the aggregate number of Gold Shares issuable upon exchange of the Bonds into a custody account;
- adding a new covenant to the Bonds pursuant to which the Issuer will be required to offer to repurchase a proportion of the Bonds outstanding at the relevant time if and to the extent that the contained gold equivalent Mineral Reserves (in ounces) at Mandalay's Costerfield mine falls below (initially) 232,000 gold equivalent ounces;
- increasing the interest rate payable on the Bonds from 5.875% per annum to 6.875% per annum effective as of May 13, 2017; and
- reducing the exchange price of the Bonds from US$149.99 to US$135.00 (which equates to gold prices of US$1,556 per ounce, and US$1,400 per ounce, respectively).

Mandalay funded all amounts required by the Issuer to repurchase Bonds and all associated fees and expenses (including consent fees). The outstanding amount of the Loan has been reduced by an amount equal to the principal amount of the Bonds repurchased and the terms of the Loan have been amended to mirror, where applicable, the amendments to the terms of the Bonds.

Bond Exchanges

On December 3, 2018 the Company was required to exchange a principal amount of $2,300,000 of Bonds at a cost of $1,978,000. As at December 31, 2018, there was a current liability of $25,235,000 (2017 - $27,784,000) recognised on the statement of financial position relating to the Loan. The outstanding principal at year end was $27,750,000.

Subsequent to year end, on February 11, 2019, the Company exchanged $3,650,000 principal amount of Bonds at a monetary cost $3,350,000 (see Note 26). The outstanding principal amount of the Loan has been reduced in an amount equal to the principal amount of the Bonds that were exchanged and, after exchanges noted above, the outstanding principal amount of the Loan was $24,100,000.

10. Reclamation and site closure costs

Site closure and reclamation cost obligations arise from the acquisition, development, construction and normal operation from mining property, plant and equipment, due to government controls and regulations that protect the environment on the closure and reclamation of mining properties. The Company has future obligations to retire its mining assets including dismantling, remediation and ongoing treatment and monitoring of sites. The exact nature of environmental issues and costs, if any, which the Company may encounter in the future are subject to change, primarily because of the changing character of environmental requirements that may be enacted by governmental agencies.

The Company's site closure reclamation obligations consist of costs for the mines at Costerfield, Cerro Bayo, Björkdal and Ulu/Lupin. Significant site closure and reclamation activities include land rehabilitation, demolition of buildings and mine facilities, ongoing care and maintenance and other costs.

Changes to the site closure and reclamation cost balance are as follows:

	($'000)
Balance at December 31, 2016	23,391
Expenditure for reclamations	(1,575)
Change in estimated cash outflows	3,870
Accretion (Note 17)	663
Reclassification of Ulu / Lupin from held for sale	21,516
Foreign exchange	2,022
Balance at December 31, 2017	**49,886**
Expenditure for reclamations	(4,317)
Change in estimated cash outflows	(3,387)
Accretion (Note 17)	742
Foreign exchange	(2,250)
Balance at December 31, 2018	**40,674**

At each reporting period the Company reviews cost estimates and other assumptions used in the valuation of reclamation and closure costs to reflect events, changes in circumstances and new information available. Changes in these cost estimates and assumptions have a corresponding impact on the best estimate of the site closure and reclamation obligation costs.

The best estimate of the site closure and reclamation costs is measured by discounting the expected cash flows using a discount factor that reflects a pre-tax rate specific to the liability. The Company prepares estimates of the timing and amount of expected cash flows when site closure and reclamation costs are incurred. Expected cash flows are updated to reflect changes in facts and circumstances. The principal factors that can cause expected cash flows to change are: the construction of new processing facilities; changes in the quantities of material in reserves and a corresponding change in the life-of-mine plan; changing ore characteristics that impact required environmental protection measures and related costs changes in water quality that impact the extent of water treatment required; and changes in laws and regulations governing the protection of the environment. The best estimate of the site closure and reclamation costs is recorded when it is incurred.

The total undiscounted amount of estimated cash flows required to settle the retirement obligations for the Company is $45,386,000 (2017 - $53,262,000). The deposit relating to these obligations amounted to $27,676,000 (2017 - $35,924,000) is recorded in reclamation and other deposits.

The present value of the site closure and reclamation cost obligations for the Costerfield mine at December 31, 2018 is $2,918,000 (2017 – $3,189,000), calculated using a discount rate of 1.91% (2017 – 2.25%). The obligations are expected to be settled by 2022. The regulatory body in Australia requires reclamation deposits from the Company. As at December 31, 2018, the deposit amounted to $2,855,000 (2017 - $2,997,000) and is recorded in reclamation and other deposits.

10. Reclamation and site closure costs (continued)

The present value of the site closure and reclamation cost obligations for the Cerro Bayo mine as at December 31, 2018 is $18,444,000 (2017 – $18,227,000), calculated using a discount rate of 1.5% (2017 – 1.3%). The obligations are expected to be settled by 2021.

The present value of the site closure and reclamation cost obligations for the Björkdal mine as at December 31, 2018 is $2,575,000 (2017 – $2,791,000) derived through an independent consultant. The deposit amounted to $2,024,000 (2017 - $3,398,000) and is recorded in reclamation and other deposits.

The present value of the site closure and reclamation cost obligations for the Ulu/Lupin mine as at December 31, 2018 is $16,738,000 (2017 – $25,679,000), calculated using a discount rate of 2.15% (2017 – 1.86%). The obligations are expected to be settled by the end of 2027. Restricted cash at December 31, 2018 amounting to $22,797,000 (2017 – $29,530,000) stands as a deposit against reclamation.

11. Other provisions

	Employee benefits
	($'000)
Balance, December 31, 2016	3,749
Additions	1,577
Amounts paid	(1,944)
Foreign exchange	291
Balance, December 31, 2017	3,673
Additions	2,614
Amounts paid	(2,631)
Foreign exchange	(351)
Balance, December 31, 2018	**3,305**
Less: current portion	1,778
Total non-current portion	**1,527**

The Company's Costerfield and Cerro Bayo mines provide for a vacation provision for their current employees, in accordance with local statutory requirements.

12. Share capital

As at December 31, 2018, the Company had an unlimited number of authorized common shares without par value and 451,595,877 common shares outstanding (2017 – 451,279,731 common shares). All outstanding common shares are fully paid.

(a) Shares issued

For the year ended December 31, 2018 and 2017 the Company issued common shares upon exercise of Stock options and RSUs.

(b) Share-based compensation

	2018	2017
	($'000)	($'000)
Stock based compensation on options	**691**	892
Fair value for cash election option	**(38)**	(54)
RSU amortization	**120**	162
	773	1,000

(Expressed in U.S. dollars, except where otherwise noted)

12. Share capital (continued)

(b) Share-based compensation (continued)

The value of options granted was determined using the Black-Scholes option pricing model. A weighted average grant date fair value of C$0.20 (2017 – C$0.60) was calculated using the following weighted average assumptions. Expected stock price volatility and option life are based on the Company's historical share price volatility and option life.

	2018	2017
Risk free interest rate	**1.90%**	0.85%
Expected dividend yield	**0.00%**	5.33%
Expected life of options in years	**7.00**	7.00
Expected stock price volatility	**48.61%**	42.89%
Expected forfeiture rate	**5.00%**	5.00%

The Company has established a "rolling" stock option plan (the "Plan") in compliance with the TSX's policy for granting stock options. Under the Plan, the maximum number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding common shares. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. Options generally vest over three years. Options issued until year ended December 31, 2016 had maximum term of five years, and from the year 2017, can have a maximum term of up to 7 years.

(c) Stock options

Option holders resident in Australia have a choice of receiving cash in the amount equal to the differences between the exercise price and the market price of the Company's shares at the date of exercise. The cash election option expires two days after the vesting date. The share purchase option remains exercisable until the end of the term which is generally five years from the date of grant. The liability, recorded in trade and other payables, is remeasured at fair value at each reporting date. As at December 31, 2018, the liability is $4,000 (2017 - $1,000).

The Company recognized a fair value measurement gain of $38,000 for the year ended December 31, 2018 (2017 – $54,000), which is included in the share-based compensation expense.

The fair value of a cash election option is determined by using the Black-Scholes option pricing model using the following weighted average assumptions as at December 31, 2018 and 2017. The fair value is determined based on Level 1 and 2 inputs as follows:

	2018	2017
Risk free interest rate	**1.85%**	1.66%
Expected dividend yield	**0.00%**	3.20%
Expected life of options in years	**1.24**	1.23
Expected stock price volatility	**71.21%**	49.88%
Expected forfeiture rate	**0.00%**	0.00%

As at December 31, 2018, 800,000 (2017 – 775,000) stock options with the cash election option were outstanding.

(Expressed in U.S. dollars, except where otherwise noted)

12. Share capital (continued)

(c) Stock options (continued)

	Number of options	Weighted average exercise price
		C$
Balance, December 31, 2016	19,242,200	0.95
Granted	4,800,000	0.60
Exercised-equity issuance	(2,609,200)	0.78
Forfeited	(487,500)	0.96
Balance, December 31, 2017	20,945,500	0.89
Expired	(3,395,000)	1.13
Forfeited	(3,922,500)	0.69
Granted	5,850,000	0.20
Exercised	(100)	0.60
Balance, December 31, 2018	**19,477,900**	**0.68**

The weighted average share price at the time when the stock options were exercised during the year ended December 31, 2018, was C$0.20 (2017 – Nil).

The following table summarizes information about the stock options outstanding as at December 31, 2018:

Options outstanding			Options exercisable	
Number of stock options outstanding	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options exercisable	Weighted average exercise price
		C$		C$
3,060,000	0.23	0.98	3,060,000	0.98
3,485,000	1.23	0.91	3,485,000	0.91
4,078,000	2.23	0.91	-	-
3,849,900	5.50	0.60	1,283,300	0.60
5,005,000	6.50	0.20	-	-
19,477,900	**3.48**	**0.68**	**7,828,300**	**0.89**

(d) Restricted Share Units

The Company has a Restricted Share Unit Plan (the “RSU Plan”) and has granted Restricted Share Units (“RSUs”) to certain directors. Under the RSU Plan, those directors granted RSUs will receive the Company’s common shares at no cost at the end of the vesting period which are based on graded vesting over three years. Each RSU entitles the holder to one common share. The number of granted RSUs is subject to an upward adjustment based on the Company’s dividend declarations during the vesting period. The RSU value is determined based on the fair value of the Company’s share at the grant date and amortized over the vesting period, which is recorded in share-based compensation and share option reserve.

12. Share capital (continued)

(d) Restricted Share Units (continued)

The number of RSUs as at December 31, 2018, is as follows:

	Number of RSU awards
Balance, December 31, 2016	282,177
Granted	511,890
Redeemed	(105,721)
Outstanding at December 31, 2017	688,346
Granted	1,562,500
Redeemed	(316,046)
Outstanding at December 31, 2018	**1,934,800**

For the year ended December 31, 2018, the Company recorded $120,000 (2017 – $162,000), respectively, as share based compensation relating to RSUs.

(e) Dividends

During year ended December 31, 2018, the Company did not declared a dividend. The details of the 2017 dividends declared and paid are as follows:

Declaration date		Payable to shareholders of record at	Dividends declared	Total payment
			C$	($'000)
2017				
	February 16, 2017	February 27, 2017	0.0057	1,922
	May 11, 2017	May 22, 2017	0.0083	2,781
				4,703

The Company suspended dividend payments on its common shares after declaring the dividend in May 2017.

13. Income taxes

Income tax expense consists of the following:

	2018	2017
	($'000)	($'000)
Current tax		
Adjustment in respect of prior periods	(302)	(1,146)
Income tax	(5)	4,094
	(307)	2,948
Deferred tax		
Origination and reversal of temporary differences	(17,540)	(10,690)
Change in tax rates	30	(594)
Increased in unrecognized losses	13,956	11,111
	(3,554)	(173)
Total incometax expense	(3,861)	2,775

Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to income before income taxes. These differences result from the following items:

	2018	2017
	($'000)	($'000)
Loss before income taxes	(67,579)	(39,931)
Canadian federal and provincial income tax rates	26.5%	26.5%
Income tax expense based on above rates	(17,908)	(10,582)
Increase (decrease) due to		
Non-deductible (taxable) expenditures	338	(9)
Effect of different foreign tax rates on earnings of subsidiaries	175	2,885
Deferred income asset not recognised	-	-
Reduction in carrying amount of deferred income tax asset	-	764
Impact of higher tax rates on deferred income taxes	30	(594)
Increase (decrease) in unrecognized losses	13,956	11,111
Adjustment in respect of prior periods	(302)	(1,146)
Others	(150)	346
	(3,861)	2,775

The tax rates used for the 2018 and 2017 reconciliations above are the corporate tax rates applicable to Mandalay in Canadian jurisdictions. The applicable tax rate charged was 26.5% in 2018 and 2017.

13. Income taxes (continued)

The components of deferred income taxes are as follows:

	2018	2017
	($'000)	($'000)
Deferred tax assets		
Tax losses carried forward	**3,998**	784
Deductible temporary differences and other:		
Other	**94**	874
Provisions and accruals	**1,863**	1,994
Deferred tax assets	**5,955**	3,652
Deferred tax liabilities		
Property, plant and equipment	**(12,583)**	(14,772)
Finance leases	**(338)**	(150)
Foreign tax reserves	**(487)**	(148)
Deferred tax liability, net	**(7,453)**	(11,120)
Deferred tax asset	**5,955**	3,652
Deferred tax liability	**(13,408)**	(15,070)
Deferred tax liability, net	**(7,453)**	(11,418)

At December 31, 2018, the Company assessed the carrying amount of the deferred income tax assets to determine if sufficient taxable profit will be available against which they can be utilized. As a result of this assessment, there was no reduction in the carrying amount of the deferred income tax asset in the current year (2017 - $764,000).

Changes in the Company's net deferred income tax asset (liability) are as follows:

	2018	2017
	($'000)	($'000)
Opening net deferred tax liability	**(11,418)**	(11,102)
Income tax expense charged to earnings during the year	**3,554**	173
Foreign exchange	**411**	(489)
Ending net deferred tax liability	**(7,453)**	(11,418)

Deferred tax assets not recognized at the reporting date are summarized as follows:

	2018	2017
	($'000)	($'000)
Deferred tax assets		
Tax losses carried forward	**27,275**	23,401
Deductible temporary differences:		
Financing costs	**383**	588
Provisions and accruals	**5,022**	5,052
Property, plant and equipment	**5,130**	5,130
Other	**1,760**	1,485
Unrecognized deferred tax assets	**39,570**	35,656

As at December 31, 2018, the Company had unrecognized Canadian income tax losses of approximately $66,417,000 (2017 – $70,934,000) that expire from 2023 through 2036, as well as unrecognized Chilean tax losses of $18,783,000 (2017 - $17,049,000).

14. Revenue

Disaggregation of revenue

In the following table, the Company's revenue is disaggregated by primary geographical market, major products and service lines. The table also includes a reconciliation of the disaggregated revenue with the Company's reportable segments (see Note 20).

Year ended December 31, 2018	Costerfield		Cerro Bayo		Björkdal		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	**2017**
Primary geographical markets								
Australia	**47,579**	63,900	**-**	-	**-**	-	**47,579**	63,900
Chile	**-**	-	**-**	23,786	**-**	-	**-**	23,786
Sweden	**-**	-	**-**	-	**63,629**	72,787	**63,629**	72,787
Revenue from contracts with customers	**47,579**	63,900	**-**	23,786	**63,629**	72,787	**111,208**	160,473
Provisional pricing adjustments	**381**	(691)	**80**	1,654	**499**	1,561	**960**	2,524
Total revenue from mining operations	**47,960**	63,209	**80**	25,440	**64,128**	74,348	**112,168**	162,997
Commodities								
Gold	**29,165**	38,971	**-**	8,471	**63,629**	72,787	**92,794**	120,229
Silver	**-**	-	**-**	15,315	**-**	-	**-**	15,315
Antimony	**18,414**	24,929	**-**	-	**-**	-	**18,414**	24,929
Revenue from contracts with customers	**47,579**	63,900	**-**	23,786	**63,629**	72,787	**111,208**	160,473
Provisional pricing adjustments	**381**	(691)	**80**	1,654	**499**	1,561	**960**	2,524
Total revenue from mining operations	**47,960**	63,209	**80**	25,440	**64,128**	74,348	**112,168**	162,997

15. Cost of sales

The cost of sales for the year ended December 31, 2018 and 2017, consists of:

	2018	**2017**
	($'000)	**($'000)**
Raw materials and consumables	**29,149**	32,709
Salary and employee benefits	**32,327**	34,037
Contractors	**17,380**	28,052
Change in inventories	**4,577**	2,440
Royalty	**623**	764
Other	**8,934**	9,109
	92,990	107,111

16. Administration expenses

The administration expenses for the year ended December 31, 2018 and 2017 consists of the following:

	2018	2017
	($'000)	($'000)
Accounting and legal	1,442	1,404
Administrative and office	1,091	2,002
Salaries	2,092	2,572
Travel and entertainment	664	674
Other	578	637
Total	5,867	7,289

Included in cost of sales and administrative expenses and office are the employee salary and benefit expenses of $32,327,000 and $1,091,000 respectively (2017 - $34,037,000 and $2,002,000).

17. Finance costs

The finance expenses for the year ended December 31, 2018 and 2017 consists of the following:

	2018	2017
	($'000)	($'000)
Interest on five year exchangeable loan	2,480	3,788
Finance charges on revolver facility	1,859	559
Interest on other borrowings and bank charges	347	235
Accretion of reclamation and site closure costs (refer note 10)	742	663
Expenses relating to part repayment of five year exchangeable bonds	-	1,249
Loss on part repayment of five year exchangeable bonds	152	1,682
	5,580	8,176

18. Financial instruments

The changes to the fair values in financial instruments for the year ended December 31, 2018 and 2017 consists of the following:

	2018	2017
	($'000)	($'000)
Five-year exchangeable bonds (a)	876	(2,495)
Marketable securities (b)	(77)	(113)
Total fair value adjustment	799	(2,608)

(a) Five-year exchangeable bonds

The Company has valued the conversion feature of the five-year exchangeable bonds (see Note 9) using the Black-Scholes option pricing. For the year ended December 31, 2018, the derivative value of the conversion feature amounts to $2,691,000 (2017 – $3,567,000) and is recorded in current liabilities in the consolidated statements of financial position. The Company recorded a fair value measurement loss of $876,000 (2017 – gain of $2,495,000) for the year ended December 31, 2018. The value was estimated using the following Level 2 assumptions: risk free interest rate of 2.63% (2017 – 1.98%); volatility of 16% (2017 – 16%), gold forward curve adjustment of 1.0% (2017 – (-0.54%)).

18. Financial instruments (continued)

(b) Marketable securities

The value of securities as at December 31, 2018, is $73,000 (2017 – $159,000), recorded in trade receivables and other assets on the consolidated statement of financial position. These securities are stated at fair value with any resulting gain or loss recognized in income or loss. The Company recorded a fair value measurement gain/(loss) of $77,000 (2017 – $113,000) for the year ended December 31, 2018, respectively, using Level 1 assumptions.

19. Income per share

As at December 31, 2018 and 2017, the weighted average number of common shares for the purpose of calculating diluted income per share reconciles to the weighted average number of common shares used in the calculation of basic income per share as follows:

	2018	2017
	('000)	('000)
Net loss for the year	**(63,718)**	(42,706)
Basic weighted average number of shares outstanding	**451,500**	451,247
Diluted weighted average number of shares outstanding	**451,500**	451,247

Since the Company had a net loss in both years ended December 31, 2018 and 2017, the Company's stock options and RSU's are anti-dilutive. Details for the options and RSU's are below:

	Year ended December 31,	
	2018	2017
	('000)	('000)
Stock options	**19,478**	20,946
RSU	**1,935**	688

20. Segmented information

The Company manages its operations by geographical location. These reportable operating segments are summarized in the table below ("Canada" is the provision of corporate services and administrative support and also includes non-core assets held in Canada):

	Year ended on December 31, 2018				
	Australia	**Chile**	**Sweden**	**Canada**	**Total**
	($'000)	**($'000)**	**($'000)**	**($'000)**	**($'000)**
Revenue	47,960	80	64,128	-	112,168
Cost of sales, excluding depletion and depreciation	(37,800)	(87)	(55,103)	-	(92,990)
Depletion and depreciation	(15,424)	(1,651)	(13,393)	(18)	(30,486)
Loss from mine operations	(5,264)	(1,658)	(4,368)	(18)	(11,308)
Other operating expenses	(1,602)	(587)	(2,065)	(1,638)	(5,892)
Care and maintenance and other operating expenses	-	(10,486)	-	-	(10,486)
Write-down of assets	(36)	(34,609)	-	-	(34,645)
Loss from operations	(6,902)	(47,340)	(6,433)	(1,656)	(62,331)
Other expense, except for fair value adjustment	1,580	(627)	(655)	(6,345)	(6,047)
Fair value adjustments gain	-	-	-	799	799
Loss before income taxes	(5,322)	(47,967)	(7,088)	(7,202)	(67,579)
Current tax recovery	307	-	-	-	307
Deferred tax recovery	1,168	-	2,386	-	3,554
Net loss	**(3,847)**	**(47,967)**	**(4,702)**	**(7,202)**	**(63,718)**
Net Loss per share					
Basic and diluted					($0.14)
Cash expenditure for property, plant and equipment	22,445	785	27,866	188	51,284
Total non-current assets as at December 31, 2018	47,878	20,394	98,582	31,949	198,803
Total assets as at December 31, 2018	59,272	24,313	118,819	35,299	237,703
Total liabilities as at December 31, 2018	14,154	20,684	31,012	75,717	141,567

20. Segmented information (continued)

					Year ended on December 31, 2017
	Australia	Chile	Sweden	Canada	Total
	($'000)	($'000)	($'000)	($'000)	($'000)
Revenue	63,209	25,440	74,348	-	162,997
Cost of sales, excluding depletion and depreciation	(38,433)	(20,478)	(48,200)	-	(107,111)
Depletion and depreciation	(14,419)	(9,261)	(16,555)	(23)	(40,258)
Income (loss) from mine operations	10,357	(4,299)	9,593	(23)	15,628
Other operating expenses	(2,323)	(2,939)	(2,513)	(1,089)	(8,864)
Care and maintenance and other operating expenses	-	(12,815)	-	-	(12,815)
Write-down of assets	(552)	(19,777)	-	(1,484)	(21,813)
Income (loss) from operations	7,482	(39,830)	7,080	(2,596)	(27,864)
Other expense, except for fair value adjustment	(475)	(656)	(798)	(7,530)	(9,459)
Fair value adjustments loss	-	-	-	(2,608)	(2,608)
Income (loss) before income taxes	7,007	(40,486)	6,282	(12,734)	(39,931)
Current tax recovery (expense)	(2,105)	850	(1,693)	-	(2,948)
Deferred tax recovery	477	4	409	(717)	173
Net income (loss)	**5,379**	**(39,632)**	**4,998**	**(13,451)**	**(42,706)**
Net Loss per share					
Basic and diluted					($0.09)
Cash expenditure for property, plant and equipment	10,949	10,437	26,021	58	47,465
Total non-current assets as at December 31, 2017	45,296	56,375	89,078	43,092	233,841
Total assets as at December 31, 2017	65,571	70,293	122,505	46,692	305,061
Total liabilities as at December 31, 2017	13,489	21,366	31,499	73,168	139,522

20. Segmented information (continued)

For the year ended December 31, 2018, the Company had four customers from whom it earned more than 10% of its total revenue (2017 – two customers).

Revenue from these customers is summarized as follows:

	Year ended December 31, 2018	Year ended December 31, 2017
	($'000)	($'000)
Costerfield (gold and antimony)		
Customer 1	**35,954**	44,917
Customer 2	**11,489**	-
	47,443	44,917
Björkdal (gold)		
Customer 3	**52,750**	63,208
Customer 4	**11,378**	-
	64,128	63,208
Total	**111,571**	108,125

21. Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

In the management of capital, the Company includes the components of equity, long-term debt, net of cash and cash equivalents.

Capital, as defined above, as at December 31, 2018 and 2017 is summarized in the following table:

	2018	2017
	($'000)	($'000)
Total equity	**96,136**	165,539
Five-year exchangeable loan (Note 9)	**25,235**	27,784
Non-current borrowings	**3,821**	16,161
	125,192	209,484
Cash and cash equivalents	**(8,395)**	(16,935)
	116,797	192,549

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares or purchase existing shares under Normal Course Issuer Bid arrangements, issue new debt or pay down existing debt, or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares annual budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual budget and quarterly updated forecasts are approved by the Company's Board of Directors.

22. Financial risk management

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. These risks may include credit risk, liquidity risk, currency risk, interest rate risk and commodity price risk. Where material, these risks are reviewed and monitored by the Company's Board of Directors.

(a) Credit risk

Credit risk is the risk of an unexpected loss if a party to its financial instrument fails to meet its contractual obligations.

The Company's financial assets are primarily composed of cash and cash equivalents, trade and other receivables, derivative financial instruments and reclamation and other deposits. Credit risk is primarily associated with trade receivables and investments; however, it also arises on cash and cash equivalents.

To mitigate exposure to credit risk, the Company has established policies to limit the concentration of credit risk, to ensure counterparties demonstrate minimum acceptable creditworthiness, and to ensure liquidity of available funds.

The Company closely monitors its financial assets and does not have any significant concentration of credit risk. The Company sells its antimony, silver and gold exclusively to large international organizations with strong credit ratings.

The historical level of customer defaults is minimal and, as a result, the credit risk associated with gold, silver and antimony trade receivables as at December 31, 2018 is not considered to be high.

The Company's maximum exposure to credit risk as at December 31, 2018 and December 31, 2017, is as follows:

	2018	2017
	($'000)	($'000)
Cash and cash equivalents	**8,395**	16,935
Trade and other receivables	**15,745**	30,510
Reclamation and other deposits	**27,676**	35,924
	51,816	83,369

A significant portion of the Company's cash and cash equivalents is held in large Canadian financial institutions.

(b) Aging of past due but not impaired receivables

The Company receives 90-95% of the estimated sales revenue of gold, silver, and antimony upon delivery. Final selling price is determined approximately 90-180 days after the delivery when smelting is complete. The remaining receivable balance is settled with an adjustment once the final selling price is determined, which may be after 180 days. The Company has financial risk management policies in place to ensure that all receivables are received within the pre-agreed credit terms.

22. Financial risk management (continued)

(b) Aging of past due but not impaired receivables (continued)

For the year ended December 31, 2018, substantially all of the Company's silver/gold/antimony production was sold to four customers (2017 – two) and there was no significant change in the credit quality of these customers over that time. Below is the information on the aging of the accounts receivable. There are neither past due amounts nor impaired trade receivables as at December 31, 2018 and 2017.

	2018	2017
	($'000)	($'000)
Less than 6 months	**8,036**	22,576
6 months or more	**-**	-
	8,036	22,576

(c) 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 manages liquidity risk through the management of its capital structure.

The following are the contractual maturities of commitments. The amounts presented represent the future undiscounted principal and interest cash flows and therefore do not necessarily equate to the carrying amounts on the Company's consolidated statements of financial position.

					2018	2017
	Less than 1 year	**1-3 years**	**4-5 years**	**After 5 years**	**Total**	Total
	($'000)	**($'000)**	**($'000)**	**($'000)**	**($'000)**	($'000)
Trade and other payable	**26,204**	**-**	**-**	**-**	**26,204**	24,281
Five-year exchangeable	**27,750**	**-**	-	**-**	**27,750**	30,050
Borrowings	**32,064**	**3,821**	**-**	**-**	**35,885**	18,139
Income taxes payable	**120**	**-**	**-**	**-**	**120**	1,053
	86,138	**3,821**	**-**	**-**	**89,959**	73,523

Refer to the going concern assumption discussion in Note 2(a).

22. Financial risk management (continued)

(d) Currency risk

The Company operates in Canada, Australia, Chile and Sweden. As a result, the Company has foreign currency exposure with respect to items not denominated in U.S. dollars.

(i) Exposure to currency risk

The Company is exposed to currency risk through the following assets and liabilities denominated in currencies other than the U.S. dollar: cash and cash equivalents, trade and other receivables, reclamation and other deposits, trade and other payables and borrowings.

(ii) Translation exposure

The Company's presentation currency is U.S. dollars. The Company's foreign operations translate their operating results from their respective functional currency to U.S. dollars. Therefore, exchange rate movements in the Australian dollar, Canadian dollar, Chilean peso and Swedish krona can have a significant impact on the Company's consolidated financial position.

The following tables demonstrate the sensitivity to a reasonably possible change in AUD, SEK and CAD exchange rates, with all other variables held constant. The impact on the Company's profit is due to changes in the fair value of monetary assets and liabilities in place at the balance sheet data. The Company's exposure to foreign currency changes for all other currencies is not material.

2018

	Change in USD rate	Effect on profit before tax	Effect on Pre - tax equity
Australia	±5%	266	(2,256)
Sweden	±5%	354	(4,390)
Canada	±5%	360	2,021

2017

	Change in USD rate	Effect on profit before tax	Effect on Pre - tax equity
Australia	±5%	(350)	(2,604)
Sweden	±5%	(314)	(4,550)
Canada	±5%	506	1,324

(e) Interest rate risk

Interest rate risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to interest rate changes is limited for the majority of borrowings as at December 31, 2018 since interest to be paid on the five year exchangeable loan is fixed at 6.875% and the interest paid on the undrawn revolver facility portion is fixed at 1%. The variable interest rates are on the Equipment Facility of Björkdal bearing interest at the three-month STIBOR plus 2.16% per annum and equipment leases of Björkdal bearing interest at the one-month STIBOR plus between 2.05%-3.21% per annum. Revolver Facility bears interest at LIBOR plus 3.5%-4.5% per annum or at HSBC's "US base rate" plus 2.5%-3.5%, depending on the Company's leverage ratio.

22. Financial risk management (continued)

(f) Commodity price risk

The Company's income and cash flows are subject to price risk due to fluctuations in the market price of gold, silver, and antimony. World metal prices have historically fluctuated widely. World gold prices are affected by numerous factors beyond the Company's control, including:

- the strength of the U.S. economy and the economies of other industrialized and developing nations;
- global or regional political or economic crises;
- the relative strength of the U.S. dollar and other currencies;
- expectations with respect to the rate of inflation;
- interest rates;

(f) Commodity price risk (continued)

- purchases and sales of gold by central banks and other holders;
- demand for jewelry containing gold, and/or silver;
- changes in industrial demand for silver and/or antimony;
- changes in supply of gold, silver, and/or antimony due to new mines being commissioned and existing mines being exhausted; and
- investment activity, including speculation, in gold, silver, and antimony as commodities.

The Company is subject to price risk for fluctuations in the cost of energy, principally electricity and purchased petroleum products. The Company's production costs are also affected by the prices of materials it consumes or uses in its operations, such as lime, reagents and explosives. The prices of such commodities are influenced by supply and demand trends affecting the mining industry in general and other factors outside the Company's control.

23. Fair value measurement

The fair values of cash and cash equivalents, trade and other receivables (non-provisional pricing portion), reclamation and other deposits, and trade and other payables approximate their carrying value due to the nature of these items.

The Company defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In assessing the fair value of a particular contract, the market participant would consider the credit risk of the counterparty to the contract. Consequently, when it is appropriate to do so, the Company adjusts the valuation models to incorporate a measure of credit risk. Fair value represents management's estimates of the current market value at a given point in time.

23 Fair value measurement (continued)

At December 31, 2018 and December 31, 2017, the Company's financial assets and liabilities are categorized as follows:

				2018
	FVTPL	Loans and receivables	Other financial liabilities	Total
	($'000)	($'000)	($'000)	($'000)
Financial assets				
Cash and cash equivalents	-	8,395	-	8,395
Trade receivables	-	8,036	-	8,036
Other receivables	-	7,636	-	7,636
Reclamation and other deposits	-	27,676	-	27,676
Marketable securities	73	-	-	73
Financial liabilities				
Trade and other payables	41	-	26,163	26,204
Five-year exchangeable loan	-	-	25,235	25,235
Borrowings	-	-	35,885	35,885
Derivative financial instruments	2,691	-	-	2,691

				2017
	FVTPL	Loans and receivables	Other financial liabilities	Total
	($'000)	($'000)	($'000)	($'000)
Financial assets				
Cash and cash equivalents	-	16,935	-	16,935
Trade receivables	-	22,576	-	22,576
Other receivables	-	7,775	-	7,775
Reclamation and other deposits	-	35,924	-	35,924
Marketable securities	159	-	-	159
Financial liabilities				
Trade and other payables	92	-	24,189	24,281
Five-year exchangeable loan	-	-	27,784	27,784
Borrowings	-	-	17,860	17,860
Derivative financial instrument	3,567	-	-	3,567

The fair values of cash and cash equivalents, trade and other receivables (non-provisional pricing portion), reclamation and other deposits, and trade and other payables approximate their carrying value due to the nature of these items.

23 Fair value measurement (continued)

	2018		2017	
	Carrying value	**Fair value**	Carrying value	Fair value
	($'000)	**($'000)**	($'000)	($'000)
Financial assets				
Cash and cash equivalents	**8,395**	**8,395**	16,935	16,935
Trade receivable	**8,036**	**8,036**	22,576	22,576
Other receivables	**7,636**	**7,636**	7,775	7,775
Reclamation and other deposits	**27,676**	**27,676**	35,924	35,924
Marketable securities	**73**	**73**	159	159
Financial liabilities				
Trade and other payables	**26,204**	**26,204**	24,281	24,281
Five-year exchangeable loan	**25,235**	**25,059**	27,784	26,433
Borrowings	**35,885**	**35,885**	17,860	17,916
Derivative financial instruments	**2,691**	**2,691**	3,567	3,567

The Company has certain financial assets and liabilities that are measured at fair value or fair value is disclosed. The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to the Level 3 inputs.

As at December 31, 2018, other receivables and marketable securities are based on Level 1 inputs. Provisional pricing feature included in trade and other payables and derivative financial instruments are based on Level 1 inputs. Reclamation and other deposits, five year-exchangeable bonds and long-term debt are based on Level 2 inputs. The Company constantly monitors events or changes in circumstances which may cause transfers between the levels of the fair value hierarchy.

24. Related party transactions

Mr. Sanjay Swarup was the Chief Financial Officer of the Company until August 16, 2018. He was also the Director of SKS Business Services, which provides contractual accounting services to the Company, the amount of which is outlined in the table below:

	2018	2017
	($'000)	($'000)
Administration expenses, salaries and consultancy services		
SKS Business Services	**117**	181

24 Related party transactions (continued)

The following table outlines the compensation of key management personnel of the Company:

	2018	2017
	($'000)	($'000)
Salaries and short-term benefits	**1,349**	2,252
Share-based payments	**556**	752
Total	**1,905**	3,004

25. Commitments and contingencies

The Company is involved in legal proceedings from time to time arising in the ordinary course of business. Typically, the amount of the ultimate liability with respect to these actions will not materially affect the Company's financial position and financial performance.

The Company's Björkdal mine has entered into several equipment leases and the detailed future minimum payments relating to these leases are outlined in Note 8.

26. Subsequent events

Reclamation and site closure costs

On December 21, 2018, the Nunavut Water Board reached a decision to recommend that the Letter of Credit that was posted by the Company as security for its reclamation obligations in respect of the Lupin mine be reduced by CAD$3,205,000. On January 28, 2019, this recommendation had been approved by the Minister of Indigenous and Northern Affairs.

Revolver Facility

On January 16, 2019, the Company drew down $5,000,000 from the Revolver Facility, resulting in $35,000,000 total drawn and therefore $5,000,000 remaining to be drawn under this facility after that date.

On February 20, 2019, the Company received waivers for the financial covenants of the Revolver Facility for the three months ending December 31, 2018 and March 31, 2019.

Bridge Loan

On February 20, 2019, the Company had entered into a one-year bridge loan agreement for $8,000,000 with CE Mining Fund III L.P., an investment fund advised by Plinian Capital Limited, which in turn is controlled by Brad Mills, the Chairman of the Company's Board of Directors. The bridge loan will bear interest at a rate of 10% and will be convertible at CE Mining's option into Common Shares at a price per share CAD$0.108. The Bridge Loan will be unsecured and will be subordinated to the HSBC Facility.

Public Offering

On February 12, 2019, the Company entered into a Public Offering underwriting agreement with a syndicate of underwriters led by BMO Capital Markets to sell 358,400,000 subscription receipts at a price of CAD$0.12 per subscription receipt for gross proceeds to the Company of approximately CAD$43,008,000.

Five year exchangeable gold loan conversion

On February 11, 2019, the Company exchanged a principal amount of $3,650,000 of Bonds at a cost $3,350,000. The remaining principal amount for the Bonds after this exchange was $24,100,000.

27. Comparative consolidated financial statements

The comparative consolidated financial statements have been reclassified from the statements previously presented to conform to the presentation of the 2017 consolidated financial statements.