

**MINERA IRL LIMITED**

**ANNUAL REPORT AND ACCOUNTS**

**FOR THE YEAR ENDED 31 DECEMBER 2018**



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## CHAIRMAN'S STATEMENT

Under the Board of Directors' stewardship, positive results for Minera IRL continued during 2018. The Corihuarmi Mine underwent adjustments and improvements in its processes, which helped to reduce the cost per tonne of ore from US\$5.23 in 2017 to US\$4.10 in 2018. The Ollachea Project's Environmental Impact Assessment (EIA) was extended for the duration of its life of mine meaning that the Group holds all the permits necessary to carry on the Ollachea Project to the construction stage.

Alongside complying with all the steps and procedures of the COFIDE arbitration process, which we expect should end before September 2019, the Group maintains the precautionary measure granted by the Superior Tribunal of Justice of Lima which was ratified by the Arbitration Tribunal and prevents COFIDE from executing the guarantee on the Bridge Loan until the arbitration process ends.

During the last quarter of 2018 the communities elected their new Mayors and Governing Boards for periods of four and two years respectively. These authorities have reiterated their support to the continuity of our operations and the commencement of construction and production at Ollachea. The Board of Directors remains committed to obtaining new financing for this Project.

Gold production at Corihuarmi for 2018 was 22,684 ounces, very close to the 23,000 ounces forecasted. The mine life is extended to 2020 according to the NI 43-101 Technical report filed on SEDAR in July 2018. Notwithstanding, the Group expects to extend the life of Corihuarmi Mine further through an exploration program to be carried out in 2019. It is also worth noting that Minera IRL SA, the Company's subsidiary operating the Corihuarmi Mine will be paying approximately US\$300,000 as workers participation compensation from its taxable income.

On behalf of the Board of Directors I thank each one of our shareholders, directors and employees for their perseverance and trust. Our goal for 2019 is clear, to keep the Corihuarmi Mine operating efficiently, finalize the arbitration process, obtain new financing for Ollachea and thus restore the proper value of the Group.



Gerardo Perez  
Chairman  
Minera IRL Limited  
29 March 2019

## **DIRECTORS' REPORT**

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2018.

## **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the Minera IRL Group is the development and operation of gold mines in Peru.

The Group operates the Corihuarmi Gold Mine through its subsidiary Minera IRL SA and owns a project, the Ollachea Project, through Compañía Minera KuriKullu SA, Minera IRL SA's subsidiary. The Ollachea Project has a completed feasibility study and environmental and construction permits.

A summary of the financial risk management policies and objectives is contained in the notes to the financial statements and the Group's Annual Information Form.

## **RESULTS AND DIVIDENDS**

The total comprehensive loss after tax for the year was \$5,980,000 (2017: profit of \$812,000). No dividend was paid during the year and no final dividend is proposed. A loss of \$5,980,000 (2017: profit of \$812,000) is to be transferred to retained earnings.

## **DIRECTORS**

The names of the directors who served during the year and their interests in the share capital of the Group at the start and the end of the year are:

<b>Director</b>	<b>Ordinary shares of no par value</b>	
	<b>31-Dec-2018</b>	<b>31-Dec-2017</b>
G Perez	100	100
D Benavides	2,066,147	2,066,147
M Iannacone	-	-
J Lema <sup>(1)</sup>	-	-
S Valverde <sup>(2)</sup>	-	-

<sup>(1)</sup> Mr. Lema was appointed as director on 1 October 2017

<sup>(2)</sup> Mr. Valverde was appointed as director on 1 October 2017

## **DIRECTORS' AND OFFICERS' LIABILITY INSURANCE**

The Group maintains appropriate insurance to cover directors' and officers' liability in the course of discharging their duties to the Group. This insurance does not provide cover where a director or an officer has acted dishonestly or fraudulently.

## **DONATIONS**

The Group made no charitable donations outside of the areas in which it operates and hopes to establish mines. However, extensive work is done to help the local communities of Peru where the Group is mining or is intending to establish mines, and where the relationship with the local communities is extremely important. No political donations were made during the past year or the previous year.

## **SUBSTANTIAL SHAREHOLDERS**

As at 29 March 2019, the Group has been notified of the following substantial shareholdings in addition to those of the directors:

	<b>Number of Shares</b>	<b>Percentage of Issued Share Capital</b>
Rio Tinto Mining and Exploration Limited	44,126,780	19.1
Compañía Inversora en Minas S.A.	9,146,341	4.0

## **SUBSEQUENT EVENTS**

There have been no subsequent events between the end of the period date and the date of filing of the Directors' report.

## **DISCLOSURE OF INFORMATION**

So far as each of the directors is aware, there is no information needed by the Group's auditor in connection with the preparation of their report, which they have not been made aware of, and the directors have taken all the steps that they ought to have taken to discover any relevant audit information and to establish that the Group's auditor has been made aware of that information.

By order of the Board



Gerardo Perez  
Chairman  
Minera IRL Limited  
29 March 2019

## **DIRECTORS' RESPONSIBILITIES STATEMENT**

The directors are responsible for preparing the directors' report and the financial statements in accordance with applicable law and regulations.

Company law in Jersey requires the directors to prepare financial statements for each financial year. Under that law, the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). Under Company Law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period.

In preparing these financial statements the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRSs as issued by the IASB; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions, to disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies (Jersey) Law 1991. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in Jersey governing the preparation and dissemination of the financial statements and other information included in annual reports may differ from legislation in other jurisdictions.

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF MINERA IRL LIMITED**

## **Opinion**

We have audited the financial statements of Minera IRL Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2018 which comprise the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2018 and of the group's loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB).

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), 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 1 in the financial statements concerning the group's and parent company's ability to continue as a going concern. In March 2017 the group was informed by COFIDE that it had revoked the mandate to structure the senior debt for the development of the Ollachea Gold Project, and required repayment of the US\$70 million Bridge Loan in June 2017. The group has temporarily suspended any enforcement proceedings by COFIDE regarding repayment of the Bridge Loan, and has entered into an arbitration process which must conclude before September 2019. The group has also submitted a claim for damages against COFIDE. The group is seeking alternative sources of financing to be able to repay the Bridge Loan and obtain the necessary investment to develop the Ollachea Gold Project. The cash generated from gold production at the Corihuarmi Mine is required to fund the working capital requirements of the group in the meantime.

These conditions, along with the other matters explained in note 1 to the financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the group's and parent company's ability to continue as a going concern. These financial statements do not include the adjustments that would result if the Group was unable to continue as a going concern. Our opinion is not modified in respect of this matter.

## **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. As in all of our audits, we also addressed the risk of management

override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key Audit Matter	How the scope of our audit responded to the key audit matter
<p><b>Carrying value and assessment of impairment of intangible assets and mining assets &amp; deferred development costs, including the eligibility of expenditure capitalised under IFRS 6. (group only)</b></p> <p>The carrying value of the Ollachea Gold Project within intangible assets is \$142.497m. The carrying value of Corihuarmi mining assets &amp; deferred development costs within Property, Plant and Equipment is \$7.771m.</p> <p>There is a risk that the carrying value of the assets are impaired and that additional exploration expenditure capitalised during 2018 is not in accordance with IFRS 6.</p> <p>Recoverability is dependent on upon the discovery of economically recoverable ore reserves, continuing compliance with the terms of relevant agreements, the ability of the group to obtain the necessary financing to complete development of ore reserves, future profitable production or profitable disposal of the area of interest.</p> <p>The carrying value of the Ollachea Gold Project is assessed in conjunction with the following criteria:</p> <ul style="list-style-type: none"> <li>▪ The Group has sufficient title to the exploration licence in respect of the area known as Ollachea.</li> <li>▪ The Group has planned/budgeted further substantive expenditure for mineral resource in the area.</li> <li>▪ Exploration work undertaken to date has indicated the existence of commercially viable quantities of mineral resource, supported by an independently prepared Definitive Feasibility Study.</li> <li>▪ The carrying value of the exploration asset is likely to be fully recovered from successful development or by sale.</li> </ul> <p>The carrying value of the Corihuarmi mine is assessed for impairment in accordance with IAS 36.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>▪ Review of the cash flow forecast and impairment assessments prepared by management in relation to the Corihuarmi Mine and Ollachea Project, with a focus on the key assumptions and sensitivity to change.</li> <li>▪ Evaluation whether the model used to calculate value in use complies with the requirements of IAS 36 ‘Impairment of Assets’.</li> <li>▪ Assessed the accuracy of management budgets and forecasts used in the prior year value in use calculations to actual results achieved in the current year.</li> <li>▪ Validating the key assumptions and inputs applied and agreeing, where applicable, to independently prepared reports.</li> <li>▪ Subjecting the key assumptions to sensitivity analysis.</li> <li>▪ Substantive testing of capitalised expenditure during 2018.</li> </ul> <p>As disclosed in note 1 to the financial statements, the group is currently undergoing an arbitration process with COFIDE, following the revocation of the mandate to structure the senior debt for the development of the Ollachea Gold Project, and is seeking new sources of financing to be able to repay the Bridge Loan and obtain the necessary investment to develop the Ollachea Gold Project.</p> <p>An adverse ruling against the group under the arbitration process, or failure to secure new financing within the required timescale or on acceptable terms, could result in relinquishing control of the subsidiary, Compania Minera Kurri Kullu S.A. and therefore the Ollachea Gold Project, together with an impairment to carrying values at that date.</p>

<p><b>Recognition, valuation and disclosure of capital commitments, contingent liabilities and provisions.</b> <b>(group and company)</b></p> <p>The Group has a rehabilitation provision in respect of the Corihuarmi Mine and the Ollachea Gold Project exploration tunnel, in the event the Group does not progress into commercial production regarding the latter. Management uses their judgement and experience to provide for and amortise the estimated costs for decommissioning and site rehabilitation over the life of the mine. The ultimate cost of decommissioning and site rehabilitation are uncertain and can vary significantly. The Group uses an external expert to assist in the calculation, in conjunction with its own team of geologists.</p> <p>In addition, there are a number of additional contingent liabilities disclosed in the financial statements e.g. environmental law obligations, tax assessments, supply contracts and employee claims.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>▪ Reviewing contracts, Board minutes and other relevant documents to assess the status of the contingencies/provisions and ensure the accuracy and completeness of disclosures.</li> <li>▪ Review management experts reports and verify the key estimates and assumptions to supporting documentation or through benchmarking, as applicable.</li> <li>▪ Assess the qualifications and independence of management’s experts.</li> <li>▪ Test the method of measurement and assumptions used by management.</li> <li>▪ Discussions with management and legal counsel.</li> </ul>
<p><b>Revenue recognition</b> <b>(group only)</b></p> <p>The accounting policy for revenue recognition is set out in note 1 to the financial statements. Under ISA 240 there is a presumption that revenue recognition is a fraud risk.</p>	<p>Our audit procedures included:</p> <ul style="list-style-type: none"> <li>▪ Substantive test of detail on a sample of transactions to ensure revenue was accurately recorded and recognised in accordance with the accounting policy.</li> <li>▪ Detailed analytical review procedures.</li> <li>▪ Cut-off procedures to ensure revenue recognised relates to the accounting period.</li> </ul>

## Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor’s report thereon. The directors are responsible for the other information. Our opinion on the group and parent company financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

## **Management's responsibility for the group and parent company financial statements**

Management is responsible for the preparation of the group and parent company financial statements with IFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the 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 ISAs 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

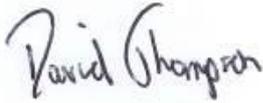
- Identify and assess the risks of material misstatement of the group and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 or company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of managements' 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 or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 or the parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the group and parent company financial statements, including the disclosures, and whether the 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.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the group and parent company financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.



**David Thompson (Senior Statutory Auditor)**  
**For and on behalf of PKF Littlejohn LLP**  
**Statutory Auditor**  
1 Westferry Circus  
Canary Wharf  
London E14 4HD

29 March 2019

**CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME**  
**For the years ended 31 December 2018 and 2017**

		<b>2018</b>	2017
	<b>Notes</b>	<b>US\$000</b>	US\$000
Revenue from contracts with customers	<b>3</b>	<b>28,939</b>	30,742
Cost of sales	<b>4</b>	<b>(23,873)</b>	(23,146)
<b>Gross Profit</b>		<b>5,066</b>	7,596
Administration expenses	<b>4</b>	<b>(5,279)</b>	(4,857)
Exploration costs		<b>(238)</b>	(186)
Gain on disposal of property, plant and equipment		<b>4</b>	443
Write-off of intangible asset	<b>11</b>	<b>(173)</b>	(266)
<b>Operating (Loss) / Profit</b>		<b>(620)</b>	2,730
Finance expense	<b>6</b>	<b>(7,640)</b>	(10,613)
Gain on adjustment of mine closure provision	<b>19</b>	<b>3,351</b>	-
Royalty buyback provision reversal	<b>18</b>	<b>-</b>	8,695
<b>(Loss) / Profit before tax</b>		<b>(4,909)</b>	812
Income tax expense	<b>8</b>	<b>(1,071)</b>	-
<b>(Loss) / Profit for the year attributable to the equity shareholders of the parent</b>		<b>(5,980)</b>	812
<b>Total comprehensive (Loss) / Profit for the year attributable to the equity shareholders of the parent</b>		<b>(5,980)</b>	812
<b>Earnings per ordinary share (US cents)</b>			
Basic and diluted	<b>9</b>	<b>(2.6)</b>	0.4

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2018 and 2017**

	Notes	2018 US\$000	2017 US\$000
<b>Assets</b>			
Property, plant and equipment	10	9,829	10,985
Intangible assets	11	143,393	142,324
Other receivables and prepayments	12	7,839	-
<b>Total non-current assets</b>		<b>161,061</b>	153,309
Inventory	13	2,181	2,769
Other receivables and prepayments	12	1,441	9,492
Current tax recoverable		127	1,036
Cash and cash equivalents	14	2,299	3,276
<b>Total current assets</b>		<b>6,048</b>	16,573
<b>Total assets</b>		<b>167,109</b>	169,882
<b>Equity</b>			
Share capital	15	159,012	159,012
Share option reserve	15	433	479
Accumulated losses		(91,377)	(85,443)
<b>Total equity attributable to the equity shareholders of the parent</b>		<b>68,068</b>	74,048
<b>Liabilities</b>			
Trade and other payables	20	-	707
Finance lease liabilities	16	-	147
Provisions	19	3,800	7,269
<b>Total non-current liabilities</b>		<b>3,800</b>	8,123
Finance lease liabilities	16	147	530
Interest bearing loans	17	82,992	76,483
Trade and other payables	20	12,102	10,698
<b>Total current liabilities</b>		<b>95,241</b>	87,711
<b>Total liabilities</b>		<b>99,041</b>	95,834
<b>Total equity and liabilities</b>		<b>167,109</b>	169,882

The consolidated financial statements were approved and authorised for issue by the Board and were signed on its behalf by:



Gerardo Pérez  
Chairman  
29 March 2019



Carlos Ruiz de Castilla  
Chief Financial Officer  
29 March 2019

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the years ended 31 December 2018 and 2017**

	Note	Share capital US\$000	Share option reserve US\$000	Accumulated losses US\$000	Total US\$000
Balance at 1 January 2017		159,012	663	(86,439)	73,236
Profit for the year		-	-	812	812
Total comprehensive income		-	-	812	812
Expiry/lapse of share options	15	-	(184)	184	-
Total transactions with owners, recognised directly in equity		-	(184)	184	-
Balance 31 December 2017	15	159,012	479	(85,443)	74,048

	Note	Share capital US\$000	Share option reserve US\$000	Accumulated losses US\$000	Total US\$000
<b>Balance at 1 January 2018</b>		<b>159,012</b>	<b>479</b>	<b>(85,443)</b>	<b>74,048</b>
<b>Loss for the year</b>		<b>-</b>	<b>-</b>	<b>(5,980)</b>	<b>(5,980)</b>
<b>Total comprehensive loss</b>		<b>-</b>	<b>-</b>	<b>(5,980)</b>	<b>(5,980)</b>
<b>Expiry/lapse of share options</b>	<b>15</b>	<b>-</b>	<b>(46)</b>	<b>46</b>	<b>-</b>
<b>Total transactions with owners, recognised directly in equity</b>		<b>-</b>	<b>(46)</b>	<b>46</b>	<b>-</b>
<b>Balance 31 December 2018</b>	<b>15</b>	<b>159,012</b>	<b>433</b>	<b>(91,377)</b>	<b>68,068</b>

**CONSOLIDATED CASH FLOW STATEMENT**  
**For the years ended 31 December 2018 and 2017**

	Notas	2018 US\$000	2017 US\$000
<b>Cash flows from operating activities</b>			
(Loss) / profit before tax		(4,909)	812
Finance expense	6	7,640	10,613
Adjustment to mine closure provision	19	(3,351)	-
Royalty buyback provision reversal	18	-	(8,695)
Depreciation	10	3,015	2,230
Gain on disposal of property, plant and equipment		(4)	(444)
Write-off of intangible asset	11	173	266
Decrease / (increase) in inventory		588	(40)
Decrease / (increase) in other receivables and prepayments		225	(489)
Increase in trade and other payables		1,145	1,951
Payment of mine closure costs	19	(48)	(79)
<b>Cash generated from operations</b>		<b>4,474</b>	<b>6,125</b>
Income tax paid		(175)	(147)
<b>Net cash from operating activities</b>		<b>4,299</b>	<b>5,978</b>
<b>Cash flows from investing activities</b>			
Acquisition of property, plant and equipment		(1,796)	(3,190)
Deferred exploration and development expenditures	11	(2,718)	(4,334)
Disposal of property, plant and equipment		4	471
<b>Net cash outflow from investing activities</b>		<b>(4,510)</b>	<b>(7,053)</b>
<b>Cash flows from financing activities</b>			
Payment of finance expenses		(236)	(2,001)
Payment of finance lease liabilities	16	(530)	(505)
<b>Net cash outflow from financing activities</b>		<b>(766)</b>	<b>(2,506)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(977)</b>	<b>(3,581)</b>
Cash and cash equivalents at beginning of year		3,276	6,857
<b>Cash and cash equivalents at end of year</b>	<b>14</b>	<b>2,299</b>	<b>3,276</b>

## **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

### **For the year ended 31 December 2018**

#### **NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES**

Minera IRL Limited (the “Group”) is registered in Jersey and its registered office is at Hawksford House, 15 Esplanade, St. Helier, Jersey, JE1 1RB, Channel Islands.

The principal activity of the Group and its subsidiaries is the exploration, development and operation of mines for the extraction of metals.

The consolidated financial statements of the Group for the year ended 31 December 2018 comprise the Group and its subsidiaries (together referred to as the “Group”).

The financial statements were authorised for issue by the directors on 29 March 2019.

#### **Statement of Compliance**

The financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) in force at the reporting date and their interpretations issued by the International Accounting Standards Board (“IASB”).

#### **New and amended standards**

#### **Interpretations and amendments to published standards effective in 2018**

The following standards were adopted by the Group and Parent Company during the year:

- IFRS 9 (2014) - Financial instruments
- IFRS 15 – Revenue from Contracts with Customers
- Clarifications to IFRS 15 – Revenue from Contracts with Customers
- Amendments to IFRS 2 - Classification and measurement of Share-based Payment Transactions
- Annual improvements to IFRS Standards 2014-2016 Cycle
- IFRIC Interpretation 22 – Foreign Currency Transactions and Advance Considerations

#### **Standards, amendments and interpretations to published standards not yet effective**

At the date of authorisation of these financial statements, the following standards and interpretations, were in issue but not yet effective, and have not been early adopted by the Group:

- IFRS 16 – Leases (effective 1 January 2019)
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle (1 January 2019)
- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020)
- Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020)

The Directors do not anticipate that the adoption of the other standards and interpretations will have a material effect on the reported income or net assets of the Group and the Parent Company.

## **Basis of Preparation and Going Concern**

The financial statements are presented in United States dollars, rounded to the nearest thousand.

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies.

At 31 December 2018, the Group had a working capital deficit of \$89,193,000 (defined as current assets less current liabilities). On 8 June 2015, the Group announced that it had arranged a \$70,000,000 secured finance facility (the "Bridge Loan") structured by the Peruvian state-owned development and promotion bank, Corporación Financiera de Desarrollo S.A. ("COFIDE") and syndicated through Goldman Sachs Bank USA. The Bridge Loan was part of a senior project credit finance facility of up to \$240,000,000 described in a letter of mandate signed by COFIDE and Minera IRL ("Senior Project Debt Facility"). The Senior Project Debt Facility was to be structured by COFIDE, in conjunction with Minera IRL, to build the Ollachea Gold Project (the "Ollachea Project").

In March 2017 COFIDE terminated the letter of mandate without providing any reason for their decision.

On 6 June 2017 the Group announced it had obtained an order from the Superior Court of Justice of Lima as a precautionary measure to protect its assets and investments in the Ollachea Project; and its intention to initiate an arbitration process. The order temporarily suspends any enforcement proceedings against the Group regarding non repayment of the \$70,000,000 Bridge Loan granted by COFIDE as well as the last interest instalment of approximately \$1,240,000, both of which were due for payment on 5 June 2017.

On 20 June 2017 the Group announced it had filed a request for an arbitration against COFIDE with the Arbitration Centre of the Lima Chamber of Commerce. The intention to commence the Arbitration had been previously announced by the press release on 6 June 2017.

On 4 October 2017 the Group announced the Superior Council of Arbitration of the Chamber of Commerce of Lima rejected the arguments submitted by COFIDE in opposition to beginning the Arbitration requested in June, 2017. The Council admitted the Group's claims despite COFIDE's objections, and decided that the Arbitration should continue.

On 24 September 2018 the Group released an update on the arbitration process against COFIDE. From February to August 2018, three documents have been submitted to the Arbitration Panel:

- 1.- The Company's Complaints submitted in February
- 2.- COFIDE's jurisdictional objections, Answer and Counterclaim submitted in May, and
- 3.- The Company's Reply submitted in August.

Up to this date, the Arbitration Process is following its normal course and should conclude by September 2019.

The Bridge Loan is secured by the Ollachea Project's assets, mining reserves, mining concessions and rights and a pledge of the shares of the Group's subsidiary, Compañía Minera Kuri Kullu S.A., which holds the Ollachea Project. If the arbitration ruling is not in favour of the Group, or the Group is not able to secure an alternative source of funds to refinance the debt with COFIDE it may have to relinquish its ownership of the subsidiary, Compañía Minera Kuri Kullu S.A. and therefore the Ollachea Project. All net assets associated with the Ollachea Project would be fully impaired as a result. The assets of the Corihuarmi Mine are not included as a guarantee of the Bridge Loan.

The Group is currently evaluating its options and seeking an alternative source of financing its Ollachea Project.

The Directors consider that an alternative source of funding will be secured to be able to repay the Bridge Loan and obtain the necessary investment to develop the Ollachea Project. There can be no guarantee however that alternative funding will be obtained within the required timescale or on acceptable terms.

The cash generated from gold production at the Corihuarmi Mine is required to fund the working capital requirements of the Group in the meantime.

The Directors have therefore prepared the financial statements on the assumption that the Group will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Group is not expected to continue operations for the foreseeable future.

## Accounting Policies

The following significant accounting policies have been adopted in the preparation and presentation of the financial report. These policies have been applied consistently for all the years presented, unless otherwise stated:

### (a) Principles of Consolidation

The consolidated financial statements incorporate the statements of the Group and enterprises controlled by the Group (its subsidiaries) made up to 31 December each year. Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date. The excess of cost of acquisition over the fair value of the Group's share of identifiable net assets acquired is recognised as separately identifiable intangibles and goodwill. Any excess of the fair value of assets acquired over the cost of acquisition is recognised directly in the consolidated statement of comprehensive income.

The results of subsidiaries acquired or disposed of are included in the consolidated statement of comprehensive income from the effective date of acquisition, or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group.

All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

### Subsidiaries

These consolidated financial statements include the financial statements of the Parent and its subsidiaries as follows:

	Location	Ownership
Minera IRL Limited	Jersey	-
Minera IRL S.A.	Peru	100%
Compañía Minera Kuri Kullu S.A.	Peru	100%
Minera IRL Argentina S.A.	Argentina	100%
Minera IRL Chile S.A.	Chile	100%

**(b) Revenue Recognition**

The Group enters into contracts for the sale of gold. Revenue arising from gold sales under these contracts is recognised when the price is determinable, the product has been delivered in accordance with the terms of the contract, the significant risks and rewards of ownership have been transferred to the customer and collection of the sales price is reasonably assured. These criteria are assessed to have occurred once the gold has been despatched to the customer and a sale price has been agreed for the contained gold.

A receivable is recognised when the goods are despatched, since this is the point in time that the consideration is unconditional.

**(c) Income Tax**

The charge for taxation is based on the profit or loss for the year and takes into account deferred taxation. Deferred tax is expected to be payable or recoverable on differences between the carrying value amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computations, and it is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be realised.

Current tax is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date in the countries where the Group operates and generates taxable income. Deferred tax is determined using tax rates that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

**(d) Foreign Currency**

The Group's presentation currency is the US Dollar and has been selected based on the currency of the primary economic environment in which the Group as a whole operates. In addition, the significant entities in the Group have a functional currency of the US Dollar.

Transactions in currencies other than the functional currency of a company are recorded at a rate of exchange approximating to that prevailing at the date of the transaction. At each statement of financial position date, monetary assets and liabilities that are denominated in currencies other than the functional currency are translated at the amounts prevailing at the statement of financial position date and any gains or losses arising are recognised in profit or loss.

**(e) Cash and Cash Equivalents**

Cash and cash equivalents include cash on hand, deposits and money market investments readily converted to cash and have an insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities. For the purposes of the cash flow statements, cash and cash equivalents includes cash on hand and in banks, and money market investments readily convertible to cash, net of outstanding bank overdrafts.

Restricted cash, comprising cash set aside to cover rehabilitation obligations, is not available for use by the Group and is excluded from cash and cash equivalents.

**(f) Financial instruments – initial recognition and subsequent measurement**

A financial instrument is any contract that gives rise to a financial asset of an entity and a financial liability or equity instrument of another.

## *(1) Financial assets*

### *Initial recognition and measurement*

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through OCI, or fair value through profit and loss.

The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group 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.

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 (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group'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.

### *Subsequent measurement*

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortised cost
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

### *Financial assets at amortised cost (debt instruments)*

This category is the most relevant to the Group. The Group 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 finance income in the statement of profit or loss and other comprehensive income. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. IFRS 9.5.4 The Group's financial assets at amortised cost include other receivables and cash and cash equivalents.

### *Derecognition*

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

### *Impairment of financial assets*

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original EIR. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For other receivables due in less than 12 months, the Group applies the simplified approach in calculating ECLs, as permitted by IFRS 9. Therefore, the Group does not track changes in credit risk, but instead, recognises a loss allowance based on the financial asset's lifetime ECL at each reporting date.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows and usually occurs when past due for more than one year and not subject to enforcement activity.

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

## *(2) 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 Group's financial liabilities include trade and other payables and loans.

### *Subsequent measurement*

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

#### *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 statement of profit or loss and other comprehensive income when the liabilities are derecognised, as well as through the EIR amortisation process.

Amortised 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 statement of profit or loss and other comprehensive income.

This category generally applies to trade and other payables.

### *Derecognition*

A financial liability is derecognised 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 and other comprehensive income.

## *(3) Financial liabilities*

Liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through profit and loss or other liabilities, as appropriate.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Financial liabilities included in trade and other payables are recognised initially at fair value and subsequently at amortised cost.

**(g) Intangible Assets**

*Deferred exploration costs*

Once legal title is obtained, exploration and evaluation expenditure incurred is accumulated in respect of each identifiable area of interest. These costs are only carried forward to the extent that they are expected to be recouped through the successful development of the area. Accumulated costs in relation to an abandoned area are written off in full against the results in the year in which the decision to abandon the area is made. No amortisation is charged during the exploration and evaluation phase. Expenditure is transferred from 'Deferred Exploration Costs' to 'Mining Assets' in property, plant and equipment once the work completed to date supports the technical and commercial feasibility of the project, the appropriate permits have been issued and financing has been secured. Additional exploration and evaluation expenditure subsequent to transfer is capitalised within 'Mining Assets and Deferred Development Costs' within property, plant and equipment.

The recoverability of the deferred exploration cost is dependent upon the discovery of economically recoverable ore reserves, continuing compliance with the terms of relevant agreements, the ability of the Group to obtain the necessary financing to complete the development of ore reserves, and the future profitable production or profitable disposal of the area of interest.

A regular review is undertaken of each area of interest to determine the appropriateness of continuing to carry forward costs in relation to that area of interest.

**(h) Property, Plant and Equipment**

*(i) Owned asset*

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (see accounting policy i below).

*(ii) Subsequent costs*

The Group recognises in the carrying amount of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the consolidated statement of comprehensive income.

*(iii) Depreciation*

Depreciation on these assets is calculated by the straight-line method to allocate their cost over their estimated useful lives, as follows:

- vehicles - 5 years;
- computer equipment - 4 years;
- furniture and fixtures, and other equipment - 10 years;
- buildings - 25 years; and
- land is not depreciated.

The residual values and useful economic lives of all assets are reviewed annually.

Mining assets are depreciated over the expected life of the mine. The amount of ore remaining and the expected future life of the mine are reviewed each year.

*(iv) Mining assets and Deferred development costs*

When the technical and commercial feasibility of an area of interest has been demonstrated, financing has been secured and the appropriate permits have been issued, the area of interest enters its development phase. The accumulated costs are transferred from exploration and evaluation expenditure within intangible assets and reclassified as mining assets and deferred development costs. When a mine development project moves into the production phase, the capitalization of

certain mine development costs ceases and costs are either recognised as forming part of the cost of inventory or expensed, except for costs that qualify for capitalization relating to mining asset additions or improvements to mineable reserve development.

Once mining commences the asset is amortised on a unit-of-production basis over the expected life of the mine. Provisions are made for impairments to the extent that the asset's carrying value exceeds its net recoverable amount.

**(i) Impairment of property, plant and equipment and intangible assets**

At each statement of financial position date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered impairment. Prior to carrying out impairment reviews, the significant cash generating units are assessed to determine whether they should be reviewed under the requirements of IFRS 6 - Exploration for and Evaluation of Mineral Resources or IAS 36 - Impairment of Assets. Such determination is by reference to the stage of development of the project and the level of reliability and surety of information used in calculating value in use or fair value less costs to sell.

Impairment reviews performed under IFRS 6 are carried out on a project by project basis, with each project representing a potential single cash generating unit. An impairment review is undertaken when indicators of impairment arise; typically when one of the following circumstances applies:

- i. sufficient data exists that render the resource uneconomic and unlikely to be developed
- ii. title to the asset is compromised
- iii. budgeted or planned expenditure is not expected in the foreseeable future
- iv. insufficient discovery of commercially viable resources leading to the discontinuation of activities

Impairment reviews performed under IAS 36 are carried out when there is an indication that the carrying value may be impaired. Such key indicators (though not exhaustive) to the industry include:

- i. a significant deterioration in the spot price of gold
- ii. a significant increase in production costs
- iii. a significant revision to, and reduction in, the life of mine plan

If any indication of impairment exists, the recoverable amount of the asset is estimated, being the higher of 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash generating unit) is reduced to its recoverable amount. Such impairment losses are recognised in profit or loss for the year.

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

**(j) Inventory**

Inventory of consumables is valued at the lower of cost and net realisable value. The value of metal on the leach pads is calculated by applying the estimated cost of production incurred to place the metal on the leach pads to the number of ounces estimated to remain on the leach pads. The value of metal in process is calculated by applying the total cost of production per ounce to the number of ounces which have been extracted from the ore, but not yet been converted into doré bars.

**(k) Segment Reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the

chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of operating segments, has been identified as the Executive Chairman together with the Board of Directors.

**(l) Provisions**

Provisions are recognised when the Group has a legal or constructive obligation as a result of past events when it is more likely than not that an outflow of resources will be required to settle the obligation and when the amount of the obligation can be reliably estimated. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as interest expense.

Royalty Buyback Provision

The Group recorded the present value of the estimated cash flows on the \$5,000,000 buyback fee on the royalties granted under Tranche 3 and 4 of the Macquarie Bank loan to determine the effective interest rate.

The Group also recorded the present value of the estimated cash flows on the \$5,566,000 buyback fee on the royalties granted as part of the fees paid to Sherpa, the structuring agent of the COFIDE Bridge Loan.

At the end of the 2017, the Group reviewed the feasibility and probability of settling such options and came to the conclusion that, given current cash constraints and the arbitration process in relation to the COFIDE loan described in Note 1, it was not in the position to determine with reasonable certainty if and when these royalties buybacks could be settled. Consequently both provisions were derecognised as at 31 December 2017. A contingent liability has been disclosed related to the possibility that the Group may decide in the future to exercise both buyback options.

Additional details on the royalties granted to Macquarie Bank and Sherpa are provided under note 18, "Royalty Buyback Liabilities".

**(m) Share Based Payments**

The Group rewards directors, senior executives and certain consultants with share options. These instruments are stated at fair value at the date of grant, using the Black-Scholes valuation model, and are expensed to the consolidated statement of comprehensive income over the vesting period of the options. The valuation model requires assumptions to be made about the future, including the length of time the options will be held before they are exercised, the number of option holders who will leave the Group without exercising their options, the volatility of the share price, the risk-free interest rate and the dividend yield on the Group's shares. The resulting valuation does not necessarily reflect the value attributed to the options by the option holders.

**(n) Borrowings and Borrowings Costs**

Interest bearing borrowings are recognised initially at fair value, less attributable transactions costs. Subsequent to initial recognition they are stated at amortised cost with any difference between cost and redemption value being recognised as a finance cost over the period of the borrowings on an effective interest basis. Interest expense is capitalized once a development decision on an asset is made. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

**(o) Finance leases**

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or if lower, at the present value of the minimum lease payments. The related liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between interest expenses and capital redemption of the liability. Interest is recognised immediately in profit or loss over the lease period so as to produce a constant

periodic rate of interest on the remaining balance of the liability for each period, unless attributable to qualifying assets, in which case they are capitalised to the cost of those assets. The assets are depreciated over the shorter of the lease term and its useful lives.

**(p) Exceptional items**

Exceptional items are disclosed separately in the Financial Statements, where it is necessary to do so to provide further understanding of the financial performance of the Group. They are items that are material, either because of their size or their nature, or that are non-recurring. The de-recognition of the royalty buyback provisions are disclosed as exceptional items in the year ended 31 December 2017.

**(q) Significant Accounting Estimates and Judgements**

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are:

**Key sources of estimation uncertainty**

**Impairment**

In undertaking an impairment review for the operating mine or advanced exploration projects an economic model is prepared which includes full details of the mining and processing schedule, head grade, strip ratios of waste to ore, operating costs and capital costs. From this information the amount of gold production is calculated and revenues estimated. Operating costs, including royalties and refining charges, and capital costs are entered and a cash flow model is produced, which is used to calculate the net present value of the pre-tax cash flow from the operation or project. This net present value is then compared to the carrying value of the operation or project on the statement of financial position and an assessment is made regarding impairment.

In assessing the carrying amounts of deferred exploration costs, the Directors have used an updated financial model based upon the original Definitive Feasibility Study prepared in conjunction with a number of independent experts. The study has been approved by the Directors.

Should any key parameters differ from the assumptions contained within the technical economic model, such as tonnes of ore mined, grade of ore mined, recovery profile or gold price, the net present value will be affected either positively or negatively. If the impact is negative, an impairment charge may be required that has not been recognised in these financial statements. Further information on the year end carrying values is disclosed in Note 10, "Property, Plant and Equipment", and Note 11, "Intangibles".

**Depreciation**

Mining assets are depreciated on a unit-of-production basis over the expected life of the mine. The amount of ore remaining and the expected future life of the mine are reviewed and estimated each year. Additional information on the depreciation of mining assets and the charge for the year is provided in Note 10, "Property, Plant and Equipment".

**Environmental provisions**

Management uses its judgement and experience, together with independently prepared reports by qualified valuers, to provide for and amortise the estimated costs for decommissioning and site rehabilitation over the life of the mine. The ultimate cost of decommissioning and site rehabilitation is uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing and extent of expenditure can also change, for example in response to changes in ore reserves or processing levels. As a result, there could be significant adjustments to the

provisions estimated which could affect future financial results. Additional information on environmental provisions and the year-end carrying values is provided under “Provisions” in Note 19.

#### **Estimation of recoverable gold contained on the leach pads**

Valuations of gold on the leach pads require estimations of the amount of gold contained on the heaps. These estimations are based on the analysis of samples, historical operating data and prior experience. In addition, it requires an estimation of the costs associated with the gold on the leach pads. The value of gold on leach pads included in inventory at 31 December 2018 is \$1,175,000 (2017: \$1,066,000).

## NOTE 2 - SEGMENT REPORTING

IFRS 8 requires operating segments to be identified on the basis of internal reports on the performance of the managerial units of the Group for decision making. The Group identifies these units primarily according to the country of operation. Within the countries of operation the managerial functions are divided into mining operations, the exploration activities related to the individual properties which the Group has the rights to explore, the activities related to the acquisition of properties and the administration of the Group. The assessment of exploration activities is dependent principally on non-financial data.

During 2018 the Group had three customers. The following table sets out the income and expenditure of the Group according to these reporting segments:

2018	Peru	Jersey	Total
	US\$000	US\$000	US\$000
Mining revenue	28,939	-	28,939
Mining cost of sales	(20,912)	-	(20,912)
Mining gross profit	8,027	-	8,027
Exploration costs expensed	(238)	-	(238)
Administrative expenses	(3,811)	(1,422)	(5,233)
Net income	3,978	(1,422)	2,556
Exploration of properties - deferred	(2,718)	-	(2,718)
Capital expenditure	(1,796)	-	(1,796)
<b>Reconciliations</b>			
Segmental Revenue			
Customer A	962		962
Customer B	1,166		1,166
Customer C	26,811	-	26,811
Group revenues	28,939	-	28,939
<b>Segment Result</b>			
Segmental net income	3,978	(1,422)	2,556
Depreciation and amortisation	(3,007)	-	(3,007)
Profit on disposal of PPE	4	-	4
Write-off of intangible asset	(173)	-	(173)
Group operating profit	802	(1,422)	(620)
Finance expense	(7,640)	-	(7,640)
Adjustment to mine closure provision	3,351	-	3,351
Group (loss)/profit before tax	(3,487)	(1,422)	(4,909)
<b>Group Assets</b>			
Non-current assets	151,710	9,351	161,061
Inventory	2,181	-	2,181
Other receivables and prepayments	1,408	33	1,441
Current tax recoverable	127	-	127
Cash and cash equivalents	2,299	-	2,299
Group total assets	157,725	9,384	167,109

## NOTE 2 - SEGMENT REPORTING (CONTINUED)

<b>Group Liabilities</b>			
Provisions – non-current	3,800	-	3,800
Finance lease liabilities – current	147	-	147
Interest bearing loans – current	82,992	-	82,992
Trade and other payables – current	11,805	302	12,107
<b>Group total liabilities</b>	<b>98,744</b>	<b>302</b>	<b>99,046</b>

2017	Peru	Jersey	Total
	US\$000	US\$000	US\$000
Mining revenue	30,742	-	30,742
Mining cost of sales	(21,002)	-	(21,002)
Mining gross profit	9,740	-	9,740
Exploration costs expensed	(186)	-	(186)
Administrative expenses	(3,423)	(1,373)	(4,796)
Net income	6,131	(1,373)	4,758
Exploration of properties - deferred	(4,334)	-	(4,334)
Capital expenditure	(5,640)	-	(5,640)
<b>Reconciliations</b>			
Segmental Revenue			
Customer A	30,742	-	30,742
Group revenues	30,742	-	30,742
<b>Segment Result:</b>			
Segmental net income	6,131	(1,373)	4,758
Depreciation and amortisation	(2,205)	-	(2,205)
Gain on disposal of PPE	443	-	443
Write-off of intangible asset	(266)	-	(266)
Group operating profit	4,103	(1,373)	2,730
Finance expense	(10,016)	(597)	(10,613)
Royalty buyback provision reversal	8,695	-	8,695
Group profit / (loss) before tax	2,782	(1,970)	812
<b>Group Assets</b>			
Non-current assets	143,958	9,351	153,309
Inventory	2,769	-	2,769
Current tax recoverable	1,036	-	1,036
Other receivables and prepayments	9,459	33	9,492
Cash and cash equivalents	3,276	-	3,276
Group total assets	160,498	9,384	169,882
<b>Group Liabilities</b>			
Trade and other payables – non- current	707	-	707
Finance lease liabilities – non- current	147	-	147
Provisions – non-current	7,269	-	7,269
Finance lease liabilities – current	530	-	530
Interest bearing loans – current	76,483	-	76,483
Trade and other payables – current	10,308	390	10,698
Group total liabilities	95,444	390	95,834

### NOTE 3 – REVENUE FROM CONTRACTS WITH CUSTOMERS

	2018 US\$000	2017 US\$000
<b>Type of goods</b>		
Doré gold bars	28,939	30,742
<b>Total revenue from contracts with customers</b>	<b>28,939</b>	<b>30,742</b>

All revenue from Doré gold bars is recognised at a point in time.

### NOTE 4 – EXPENSES BY NATURE

	2018 US\$000	2017 US\$000
Site operating costs	16,361	16,278
Community and environmental costs	2,667	2,924
Depreciation and amortisation	3,007	2,205
Royalties, taxes and selling costs	1,688	1,766
Foreign exchange	341	(40)
Public company expenses	322	232
Legal, professional and consulting fees	710	1,234
Arbitration costs	1,141	463
Remuneration expenses	2,330	2,027
Property costs and utilities	446	447
Travel costs	250	278
Other	(111)	189
<b>Total cost of sales and administration expenses for the years</b>	<b>29,152</b>	<b>28,003</b>

#### Auditor's remuneration:

Fees payable to the Group's auditor and its associates for the audit of the consolidated and subsidiaries' financial statements	86	88
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### NOTE 5 - STAFF NUMBERS AND COSTS

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Number of employees 2018	Number of employees 2017
Corporate finance and administration	37	36
Technical	21	26
Construction and production	295	321
	<b>353</b>	<b>383</b>

The aggregate payroll costs of these persons were as follows:

	<b>2018</b>	2017
	<b>US\$000</b>	US\$000
Wages and salaries	<b>5,279</b>	5,868
Social security	<b>892</b>	582
	<b>6,171</b>	6,450

#### **NOTE 6 - FINANCE EXPENSE**

	<b>2018</b>	2017
	<b>US\$000</b>	US\$000
COFIDE Bridge Loan interest	<b>6,509</b>	8,454
Other Bridge Loan finance costs – unwinding of discount	-	539
Macquarie Bank royalty buyback provision (Note 17)	-	473
Sherpa royalty buyback provision (Note 17)	-	316
Other (includes unwinding of discount on environmental provisions)	<b>1,131</b>	831
Finance expenses for the years	<b>7,640</b>	10,613

#### **NOTE 7 - REMUNERATION OF KEY MANAGEMENT PERSONNEL**

	<b>Salary &amp; Fees US\$000</b>	<b>Other Benefits US\$000</b>	<b>Total Remuneration US\$000</b>
<b>2018</b>			
<b>Directors</b> <sup>1</sup>	<b>875</b>	<b>101</b>	<b>976</b>
<b>Non-Directors</b> <sup>2</sup>	<b>336</b>	<b>11</b>	<b>347</b>
<b>TOTAL</b>	<b>1,211</b>	<b>112</b>	<b>1,323</b>

Notes:

1. Directors include Messrs. Gerardo Perez, Diego Benavides, Michael Iannacone, Jesus Lema and Santiago Valverde.
2. Non-Directors include the CFO and the Corihuarmi Mine Manager.

	<b>Salary &amp; Fees US\$000</b>	<b>Other Benefits US\$000</b>	<b>2017 Total Remuneration US\$000</b>
<b>2017</b>			
<b>Directors</b> <sup>1</sup>	<b>808</b>	<b>18</b>	<b>826</b>
<b>Non-Directors</b> <sup>2</sup>	<b>431</b>	<b>19</b>	<b>450</b>
<b>TOTAL</b>	<b>1,239</b>	<b>37</b>	<b>1,276</b>

Notes:

1. Directors include Messrs. Gerardo Perez, Diego Benavides, Michael Iannacone, Jesus Lema and Santiago Valverde.
2. Non-Directors include the CFO and the Corihuarmi Mine Manager.

## NOTE 8 - INCOME TAX EXPENSE

	2018 US\$000	2017 US\$000
Current tax	1,071	-
<b>Income tax expense (recovery)</b>	<b>1,071</b>	<b>-</b>

The tax on the Group's profit/(loss) differs from the amount that would arise using the weighted average tax rate. The differences are explained below:

	2018 US\$000	2017 US\$000
<b>Tax reconciliation</b>		
(Loss) / Profit for the year	(5,980)	812
Tax	(1,071)	-
(Loss) / Profit before tax	(4,909)	812
Tax at 29.5% (2017: 29.5%)	(1,448)	239
<b>Effects at 29.5% (2017: 29.5%) of:</b>		
Write-back of royalty provision and gain on disposal of PPE	-	(2,695)
Expenses not deductible for tax purposes and losses carried forward on which no deferred tax asset is recognised	2,519	2,456
<b>Income tax expense (recovery)</b>	<b>1,071</b>	<b>-</b>

The Group has estimated tax losses of approximately \$7,433,000 (2017: \$7,569,000) available to carry forward for offset against future profits.

A potential deferred tax asset of \$6,168,000 (2017: \$3,860,000) has not been recognised because there is insufficient evidence of the timing of future taxable profits against which they can be recovered.

## NOTE 9 – EARNINGS PER SHARE

The calculation of the basic earnings or (losses) per share is based on the loss attributable to ordinary shareholders during the year ended 31 December 2018 of \$5,980,000 (2017: profit of \$812,000) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2018 of 231,135,028 (2017: 231,135,028).

Diluted earnings per share assumes that dilutive options have been converted into ordinary shares. The calculation is as follows:

	2018 Loss US\$000	2018 Number of shares '000	2018 Earnings per share US cents	2017 Profit US\$000	2017 Number of shares '000	2017 Earnings per share US cents
<u>Continuing Operation</u>						
Basic earnings (losses)	(5,980)	231,135	(2.6)	812	231,135	0.4
Dilutive effects-options	-	-	-	-	-	-
Diluted profit/(loss)	(5,980)	231,135	(2.6)	812	231,135	0.4

As at 31 December 2018, all share options were excluded from the calculation of diluted loss per share because they were non-dilutive.

## NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

	Mining assets & deferred development costs US\$000	Land & buildings US\$000	Motor Vehicles US\$000	Computers & other equipment US\$000	Total US\$000
<b>Cost</b>					
Balance at 1 January 2017	58,377	427	2,569	3,083	64,456
Additions	2,852	-	1,703	1,085	5,640
Reclassifications	(40)	-	-	40	-
Disposals	-	-	(1,913)	-	(1,913)
<b>Balance - 31 December 2017</b>	<b>61,189</b>	<b>427</b>	<b>2,359</b>	<b>4,208</b>	<b>68,183</b>
<b>Balance at 1 January 2018</b>					
Additions	<b>1,609</b>	<b>97</b>	<b>43</b>	<b>47</b>	<b>1,796</b>
Adjustment to mine closure provision <sup>(1)</sup>	<b>(3,776)</b>	-	-	-	<b>(3,776)</b>
Other adjustment <sup>(2)</sup>	-	-	-	<b>(449)</b>	<b>(449)</b>
Reclassification from intangibles (see note 11)	<b>1,476</b>	-	-	-	<b>1,476</b>
Disposals	-	-	<b>(67)</b>	-	<b>(67)</b>
<b>Balance - 31 December 2018</b>	<b>60,498</b>	<b>524</b>	<b>2,335</b>	<b>3,806</b>	<b>67,163</b>
<b>Depreciation</b>					
Balance - 1 January 2017	51,276	347	2,442	2,789	56,854
Depreciation for the year	1,907	3	250	70	2,230
Disposals	-	-	(1,886)	-	(1,886)
<b>Balance - 31 December 2017</b>	<b>53,183</b>	<b>350</b>	<b>806</b>	<b>2,859</b>	<b>57,198</b>
<b>Balance - 1 January 2018</b>					
Depreciation for the year	<b>2,356</b>	<b>19</b>	<b>525</b>	<b>115</b>	<b>3,015</b>
Adjustment to mine closure provision	<b>(2,812)</b>	-	-	-	<b>(2,812)</b>
Disposals	-	-	<b>(67)</b>	-	<b>(67)</b>
<b>Balance - 31 December 2018</b>	<b>52,727</b>	<b>369</b>	<b>1,264</b>	<b>2,974</b>	<b>57,334</b>
<b>Carrying amounts</b>					
Balance - 1 January 2017	7,101	80	127	294	7,602
<b>Balance - 31 December 2017</b>	<b>8,006</b>	<b>77</b>	<b>1,553</b>	<b>1,349</b>	<b>10,985</b>
<b>Balance - 31 December 2018</b>	<b>7,771</b>	<b>155</b>	<b>1,071</b>	<b>832</b>	<b>9,829</b>

<sup>(1)</sup> At the end of 2018, the Group reassessed the mine closure provisions of the Corihuarmi Mine and the Ollachea Project. The result of the reassessment was a net reduction of \$964,000 in the carrying value of the correspondent asset account.

<sup>(2)</sup> During the last quarter of 2018 the Group terminated an agreement with a supplier of electrical equipment intended for the Ollachea Project. As a result the Group recorded a reversal of \$449,000.

## NOTE 11 - INTANGIBLE ASSETS

<b>Deferred Exploration Costs</b>	<b>Ollachea US\$000</b>	<b>Other Peru US\$000</b>	<b>Total US\$000</b>
Balance – 1 January 2017	136,705	1,551	138,256
Additions	3,567	767	4,334
Write-off of intangible assets	-	(266)	(266)
Balance – 31 December 2017	<b>140,272</b>	<b>2,052</b>	<b>142,324</b>
Additions	2,225	493	2,718
Reclassifications (see note 10)	-	(1,476)	(1,476)
Write-off of intangible assets	-	(173)	(173)
<b>Balance as at 31 December 2018</b>	<b>142,497</b>	<b>896</b>	<b>143,393</b>

The Ollachea property will require significant project financing in order to bring it into production and convert it into mining assets. The carrying values of the deferred exploration and development costs for the Ollachea property and the Group's other exploration properties in Peru at 31 December 2018 have been assessed for indications of impairment and the results of these assessments have been sufficiently encouraging to justify the retention of the deferred exploration and development assets on the consolidated statements of financial position.

As disclosed in Note 1 'Basis of Preparation and Going Concern', the Ollachea property is pledged as security for the Bridge Loan which was due for repayment in June 2017. For additional information please refer to Note 1.

In June 2018 the Group decided to discontinue paying mineral rights related to the Quilavira project in order to preserve cash. In consequence the Group recorded a write off charge of \$173,000 related to this project.

## NOTE 12 - OTHER RECEIVABLES AND PREPAYMENTS

	<b>2018 US\$000</b>	<b>2017 US\$000</b>
<b>Non-current assets</b>		
Other receivables	7,839	-
Balance as at 31 December	7,839	-
<b>Current assets</b>		
Other receivables	1,070	9,204
Prepayments	371	288
Balance as at 31 December	1,441	9,492

Included in other receivables and prepayments is an amount of \$8,425,000 (2017: \$8,778,000) relating to sales tax paid on the purchase of goods and services in Peru. Of the \$8,425,000 sales tax recoverable, \$7,839,000 relates to purchases for the Ollachea project which is only recoverable upon commencement of metal sales from that project. Commercial production is not expected to commence in 2019, therefore this element has been included in non-current assets.

## NOTE 13 - INVENTORY

	2018	2017
	US\$000	US\$000
Gold in process	1,408	1,476
Mining materials	773	1,293
Balance as at 31 December	2,181	2,769

## NOTE 14 - CASH AND CASH EQUIVALENTS

	2018	2017
	US\$000	US\$000
Bank balances as at 31 December	2,299	3,276

## NOTE 15 - CAPITAL AND RESERVES

As at 31 December 2018 and 2017, Minera IRL Limited's share capital is made up of shares with no par value. There is no upper limit on the value of shares to be issued.

	Ordinary	
Issued and fully paid share capital	shares	US\$000
Shares in issue 31 December 2017	231,135,028	159,012
<b>Shares in issue 31 December 2018</b>	<b>231,135,028</b>	<b>159,012</b>

All fully paid shares entitle the holder to one vote and equal rights to dividends declared.

### Share Options

#### Group Share Option Scheme

Minera IRL Limited has a share option scheme for the benefit of directors, employees and certain consultants of the Group. The purpose of the scheme is to provide incentives to those people whose efforts and skills are most important to the success of the Group, and to ensure that the interests of the management of the Group are fully aligned with the interests of shareholders. The terms of the scheme allow the directors to decide at the date of grant when the option becomes exercisable. Options granted before 17 November 2009 allow for the exercise of half of the options after one year from the date of grant and half after two years. Options granted on or after 17 November 2009 allow immediate exercise. The options lapse on the fifth anniversary of the date of grant and have no performance conditions.

	2018		2017	
	Number of share options	Weighted average exercise price (£)	Number of share options	Weighted average exercise price (£)
Outstanding - beginning of year	700,000	0.15	2,000,000	0.51
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	(700,000)	0.15	(1,300,000)	0.71
Outstanding - end of the year	-	-	700,000	0.15
Exercisable - end of the year	-	-	700,000	0.15

## NOTE 15 - CAPITAL AND RESERVES (CONTINUED)

On the expiry and lapsing of 700,000 options during the year ended 31 December 2018, a total of \$46,000 was transferred from share option reserve to accumulated losses. On the expiry and lapsing of 1,300,000 options during the year ended 31 December 2017, a total of \$184,000 was transferred from share option reserve to accumulated losses.

### Other Share Options

	2018		2017	
	Number of share options	Weighted average exercise price (\$)	Number of share options	Weighted average exercise price (\$)
Outstanding entitlement - beginning of year	11,556,751	0.16	11,556,751	0.16
Granted during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding entitlement - end of the year	11,556,751	0.16	11,556,751	0.16
Exercisable - end of the year	-	-	-	-

As part of the fees paid in connection with the Bridge Loan to structuring agent Inversiones y Asesoría SHERPA S.C.R.L. (“Sherpa”), Minera IRL Limited was required to grant 11,556,751 options (subject to receipt of all regulatory approvals). Each option would be exercisable to purchase one ordinary share of the Group at a price of C\$0.20 (\$0.16) per share at any time on or prior to the date that is 360 days after the commencement of commercial production from the Ollachea Project. During the Annual General Meeting held on 30 November 2016 the resolution granting the directors the authority to allot shares was not passed. Consequently these options have not yet been granted however the entitlement remains.

All outstanding share options have an exercise price of \$0.16 (2017: \$0.16).

### **Share Option Reserve**

The share option reserve includes a credit based on the fair value of share options issued and remaining in issue at 31 December 2018.

### **Accumulated losses**

The accumulated losses reserve represents the Group’s accumulated losses since incorporation.

### **Capital Maintenance**

The directors manage the capital resources of the Group to ensure that there are sufficient funds available to continue in business. There are no externally imposed capital requirements. No requirements are incorporated into the management of capital.

	2018	2017
	US\$000	US\$000
Total interest bearing debt	82,992	76,483
Total equity	68,068	74,048
Debt-to-equity ratio as at 31 December	121.9%	103.3%

## NOTE 16 – FINANCE LEASE OBLIGATIONS

During the second quarter of 2017 the Group replaced a significant part of its dump truck fleet (10 units) at the Corihuarmi Mine through a leasing contract. The acquisition cost of the new units was \$1,501,000 and the old units were sold for \$458,000. The balance was financed through a two year lease term with an interest rate of 14.33%. These assets are pledged as security against lease obligations.

Motor vehicles includes amounts where the Group is a lessee under a finance lease. Assets held under finance lease have a net book value of \$929,000 at 31 December 2018 (2017: \$1,256,000).

The following is a schedule of future lease payments due under the capital lease contract

<b>Lease Obligations</b>	<b>2018 US\$000</b>	<b>2017 US\$000</b>
Balance - 1 January	<b>677</b>	-
Additions	-	1,501
Proceeds from disposals	-	(458)
Deferred interest	-	139
Paid during the period	<b>(530)</b>	(505)
Balance as at 31 December	<b>147</b>	677

The following is a reconciliation between present value and gross future minimum lease payments:

	<b>2018 US\$000</b>	<b>2017 US\$000</b>
Present value	<b>144</b>	620
Interest	<b>3</b>	57
Total gross future minimum lease payments	<b>147</b>	677

The following is the presentation on the Statement of Financial Position:

	<b>2018 US\$000</b>	<b>2017 US\$000</b>
Lease obligations – not later than one year	<b>147</b>	530
Lease obligations – between two and five years	-	147
Balance as at 31 December	<b>147</b>	677

## NOTE 17 – INTEREST BEARING LOANS

	2018	2017
	US\$000	US\$000
<b>Current liabilities</b>		
Promissory note	1,516	1,516
Bank loan	81,476	74,967
Balance as at 31 December	82,992	76,483

The increase in the carrying value of the Bank Loan during the year ended 31 December 2018 is due to accrued interest on the COFIDE Bridge Loan of \$6,509,000 (see Note 6).

### COFIDE Bridge Loan

On 8 June 2015, the Group announced that it had arranged a \$70,000,000 secured finance facility (the “Bridge Loan”) structured by the Peruvian state-owned development and promotion bank, Corporación Financiera de Desarrollo S.A. (“COFIDE”) and syndicated through Goldman Sachs Bank USA. The Bridge Loan was part of a senior project credit finance facility of up to \$240,000,000, described in a Mandate Letter signed by COFIDE and Minera IRL (“Senior Project Debt Facility”). The Senior Project Debt Facility was to be structured by COFIDE, in conjunction with Minera IRL, to build the Ollachea Project.

The length of the loan was for 24 months, at an interest rate of LIBOR plus 6.17%. The Bridge Loan terms included financing fees of 2.25% (\$1,575,000) paid to COFIDE along with an upfront fee of \$300,000 to Goldman Sachs. In addition, the Group paid certain fees to the financial advisor, Sherpa, including a 3% fee (\$2,100,000) paid in cash as well as a 0.9% net smelter return royalty on the Ollachea Project. Sherpa would also be entitled to 11,556,751 share options, each of which is exercisable to purchase one ordinary share of Minera IRL Limited at a price of C\$0.20 per share at any time on or prior to the date that is 360 days after the commencement of commercial production from the Ollachea Project (subject to receipt of all regulatory and shareholder approval). During the Annual General Meeting held on 30 November 2016 the resolution granting the directors the authority to allot shares was not passed, consequently, these options have not been granted.

The 0.9% net smelter return royalty granted to Sherpa is subject to a buyback at the Group’s option. Details on the royalty buyback are provided in Note 18, “Royalty Buyback Liabilities”.

The total cost of the Bridge Loan, including the estimated value of the share options and the Sherpa Royalty Buyback, was deferred and expensed over the two-year life of the loan on an effective interest basis.

The net proceeds from the Bridge Loan were applied towards the repayment of the \$30,000,000 Macquarie Bank debt facility and the payment of \$12,000,000 of the \$14,190,000 outstanding to Rio Tinto under the Ollachea Mining Rights Transfer Contract. The remaining \$2,190,000 outstanding to Rio Tinto has been converted into an unsecured promissory note payable by 31 December 2015, accruing interest at a rate of 7% per annum. The promissory note was recorded as an interest bearing loan on the statement of financial position under current liabilities. The Group had negotiated the option of settling the \$2,190,000 promissory note with cash or the issuance of Minera IRL Limited ordinary shares, subject to shareholder approval. However, the resolution to approve the issuance of ordinary shares in settlement of the promissory note at the annual general meeting, held on 27 August 2015, was not approved by shareholders. The Group repaid \$700,000 of the principal plus interest during 2016. The balance of \$1,516,000 as at 31 December 2018 is \$1,490,000 of principal and \$26,000 of interest.

In March 2017 COFIDE terminated the letter of mandate without providing any reason for their decision.

On 6 June 2017 the Group announced it had obtained an order from the Superior Court of Justice of Lima as a precautionary measure to protect its assets and investments in the Ollachea Project; and its intention to initiate an arbitration process. The order temporarily suspends any enforcement proceedings against the

## NOTE 17 – INTEREST BEARING LOANS (CONTINUED)

Group regarding the repayment of the \$ 70,000,000 Bridge Loan granted by COFIDE as well as the last interest instalment of approximately \$1,240,000, both of which were due on 5 June 2017.

On 20 June 2017 the Group announced it had filed a request for an arbitration against COFIDE with the Arbitration Centre of the Lima Chamber of Commerce. The intention to commence the Arbitration had been previously announced by the press release of 6 June 2017.

On 4 October 2017 the Group announced that the Superior Council of Arbitration of the Chamber of Commerce of Lima rejected the arguments submitted by COFIDE in opposition to beginning the Arbitration requested in June, 2017. The Council admitted the Group's claims despite COFIDE's objections, and decided that the Arbitration should continue. The Group is currently awaiting the outcome of the Arbitration process.

On 24 September 2018 the Group released an update on the arbitration process against COFIDE. From February to August of this year, three documents have been submitted to the Arbitration Panel:

- 1.- The Company's Complaints submitted in February
- 2.- Answer to COFIDE's jurisdictional objections and Counterclaim submitted in May, and
- 3.- The Company's Reply submitted in August.

Up to this date, the Arbitration Process is following its normal course and should conclude by September 2019.

The Bridge Loan is secured by the Ollachea Project's assets, mining reserves, mining concessions and rights and a pledge of the shares of the Group's subsidiary, Compañía Minera Kuri Kullu S.A., which holds the Ollachea Project. If the Group is unsuccessful in the Arbitration process or not able to secure an alternative source of funds to refinance the debt with COFIDE, it may have to relinquish its ownership of the subsidiary, Campaña Minera Kuri Kullu S.A. and therefore the Ollachea Project. All net assets associated with the Ollachea Project would be fully impaired as a result. The assets of the Corihuarmi Mine are not included as a guarantee of the Bridge Loan.

The Group is currently evaluating its options for the repayment of the Bridge Loan and accrued interests as well as seeking alternative sources of financing its Ollachea Project.

Group – Net debt reconciliation	Finance leases due within 1 year		Finance leases due after 1 year		Borrowings due within 1 year	
	Cash US\$000	US\$000	US\$000	US\$000	US\$000	Total
<b>Net debt as at 1 January 2017</b>	6,857	-	-	(69,187)	(62,330)	
Cash flows	(3,581)	-	963	-	(2,618)	
Acquisitions – finance leases	-	-	(1,501)	-	(1,501)	
Accrued interest	-	-	(139)	(7,296)	(7,435)	
Other changes	-	(530)	530	-	-	
<b>Net debt as at 31 December 2017</b>	<b>3,276</b>	<b>(530)</b>	<b>(147)</b>	<b>(76,483)</b>	<b>(73,884)</b>	
Cash flows	(977)	530	-	-	(447)	
Accrued interest	-	-	-	(6,509)	(6,509)	
Other changes	-	(147)	147	-	-	
<b>Net debt as at 31 December 2018</b>	<b>2,299</b>	<b>(147)</b>	<b>-</b>	<b>(82,992)</b>	<b>(80,840)</b>	

## NOTE 18 – ROYALTY BUYBACK LIABILITIES

The Group has granted royalties on the Ollachea Project to Sherpa under the COFIDE Bridge Loan and to Macquarie Bank under the finance facility terms amended in 2013, that can be bought out at the Group's option by paying buyback fees. The Group initially intended to exercise those options and accrued the present value of the corresponding buyback fees, with interest being unwound through finance costs.

A reconciliation of the royalty buyback provision is as follows:

	<b>Sherpa Royalty US\$000</b>	<b>Macquarie Royalty US\$000</b>	<b>Total US\$000</b>
Balance 1 January 2017	4,544	3,362	7,906
Finance expense recorded	316	473	789
Write back to profit or loss	(4,860)	(3,835)	(8,695)
Balance 31 December 2017	-	-	-
<b>Balance 31 December 2018</b>	<b>-</b>	<b>-</b>	<b>-</b>

### Sherpa Royalty Buyback Liability

In June 2015, the Group secured a \$70,000,000 Bridge Loan from COFIDE. The financial structuring costs related to the Bridge Loan included a 0.9% net smelter return royalty on gold production from the Ollachea Project. The Group would have the right to buyback and cancel this royalty by paying a buyback fee of \$5,566,000. During the year 2017 the Group increased this provision by \$316,000 to a balance of \$4,860,000. The increase to the provision was accounted for within finance expenses.

### Macquarie Royalty Buyback Liability

In August 2013, the Macquarie Finance Facility was amended to increase the amount available by \$10,000,000. As a condition of drawing down these funds the Group awarded a 1% royalty on gold production from the Ollachea Project. The Group would have the right to buyback and cancel this royalty by paying a buyback fee of \$5,000,000. During the year 2017 the Group increased this provision by \$473,000 to a balance of \$3,835,000. The increase to the provision was accounted for within finance expenses.

At the end of the 2017, the Group reviewed the feasibility and probability of settling both royalty buyback options and concluded that, given current cash constraints and the arbitration process in relation to the COFIDE loan described in Note 1, it was not in the position to determine with reasonable certainty if and when these royalties could be settled. Consequently, both provisions have been fully derecognised as at 31 December 2017.

## NOTE 19 - PROVISIONS

The Group has a provision of \$3,800,000 (2017: \$7,269,000) against the present value of the cost of restoring the Corihuarmi Mine site and Ollachea exploration tunnel site. This provision is an estimate of the cost of reversing the alterations to the environment that had been made to date. The timing and cost of this rehabilitation is uncertain and depends upon the duration of the mine life and the quantity of ore that will be extracted from the mine. At the year end, management estimates that the remaining mine life at Corihuarmi is approximately 31 months. The directors have currently estimated the rehabilitation of the Ollachea exploration tunnel to begin in 10 years' time on the assumption that commercial production does not proceed.

**NOTE 19 – PROVISIONS (CONTINUED)**

	<b>31 December 2018 US\$000</b>	31 December 2017 US\$000
Balance brought forward	<b>7,269</b>	6,738
Unwinding of the discount	<b>895</b>	528
Additional provision	-	82
Unused amounts reversed	<b>(4,316)</b>	-
Amounts used	<b>(48)</b>	(79)
<b>Balance as at 31 December</b>	<b>3,800</b>	7,269

At the end of 2018, the Group hired an independent consultant to reassess the mine closure provisions of the Corihuarmi Mine and the Ollachea Project. The result of the reassessment was a reduction of \$4,316,000 in the carrying value of the provision and a net reduction of \$964,000 in the carrying value of the correspondent asset account (see Note 10). The reduction in the carrying value is due mainly to lower budgeted closure costs in order to fulfil the Group's obligations at the Corihuarmi Mine and an extension of the period until expected closure of the Ollachea Project, following an extension to that projects Environmental Impact Assessment. The combined effect of a gain due to the decrease in the provision and a loss due to the decrease in net assets was recorded as a gain on adjustment of the mine closure provisions of \$3,351,000 within the Statement of Comprehensive Income.

The revised rehabilitation provisions are subject to agreement by the Ministry of Mines.

## NOTE 20 – TRADE AND OTHER PAYABLES

	2018 US\$000	2017 US\$000
<b>Non-current</b>		
Other payables	-	707
<b>Current</b>		
Trade payables	7,783	7,693
Other payables	4,319	3,005
Balance as at 31 December	12,102	10,698

## NOTE 21 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

### Financial instruments

The Group's principal financial assets comprise of available cash and cash equivalents, and other receivables. The Group's financial assets are classified as loans and receivables and initially recognised at fair value. After initial measurement, such financial assets are measured at amortised cost using the effective interest method, less provision for impairment.

The Group's financial liabilities include trade and other payables, interest bearing loans and other long term liabilities. All financial liabilities are recognised initially at fair value and, in the case of interest bearing loans, net of directly attributable transaction costs. Trade and other payables and interest bearing loans are subsequently measured at amortised cost using the effective interest method.

### Risk management

The Group is exposed to certain financial risks due to its business activities. The potential adverse effects of these risks are constantly assessed by the management of the Group with a view to minimising them, and the directors consider whether it is appropriate to make use of financial instruments for this purpose. The following are major financial risks which the Group is exposed to:

#### *Exchange rate risk*

The functional currency of the significant entities within the Group is deemed to be the US dollar because the revenues from the sale of minerals are denominated in US dollars and the costs of the Group are likewise predominantly in US dollars. However, some transactions are denominated in currencies other than US dollars. These transactions comprise operating costs and capital expenditure in the local currencies of the countries in which the Group operates.

The balances of cash and cash equivalents held in various currencies were:

	2018 US\$000	2017 US\$000
Peruvian nuevos soles	255	222
United States dollars	2,044	3,054
Balance as at 31 December	2,299	3,276

The table below shows an analysis of net financial assets and liabilities by currency:

	2018 US\$000	2017 US\$000
Pounds sterling	(109)	(115)
Canadian dollars	(22)	(33)
Peruvian nuevos soles	(2,172)	408
United States dollars	(85,032)	(82,290)
Balance as at 31 December	(87,335)	(82,030)

**NOTE 21 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT  
(CONTINUED)**

The table below shows the profit/(loss) effect on the Group's results of a 10% and 20% weakening or strengthening of the US dollar against the net monetary assets shown in the table above:

	<b>2018</b>	2017
	<b>US\$000</b>	US\$000
10% weakening of the US dollar	<b>(230)</b>	26
20% weakening of the US dollar	<b>(461)</b>	52
10% strengthening of the US dollar	<b>230</b>	(26)
20% strengthening of the US dollar	<b>461</b>	(52)

*Liquidity risk*

Prudent management of liquidity risk implies maintaining sufficient cash and cash equivalents as well as an adequate amount of committed credit facilities. Management of the Group safeguards its cash resources and makes regular forecasts of the requirements to use those resources. If necessary, management adapts its plans to suit the resources available.

An analysis of the financial liabilities presented by maturity is detailed below. The contractual amounts disclosed in the maturity analysis are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position because the amount in that statement is based on discounted cash flows. Moreover, as disclosed in Accounting Policies, paragraph (p) Borrowings and Borrowing costs, interest bearing borrowings are recognised initially at fair value, less attributable transaction costs. Subsequent to initial recognition they are stated at amortised cost on an effective interest basis. When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period.

<b>2018</b>	<b>Due in less</b>	<b>Due between</b>	<b>Due between</b>	<b>Total</b>
<b>Financial assets measured at amortised cost</b>	<b>than 3</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>US\$000</b>
	<b>months</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	
Receivables	477	-	-	477
Cash and cash equivalents	2,299	-	-	2,299
Total	2,776	-	-	2,776

<b>2017</b>	<b>Due in less</b>	<b>Due between</b>	<b>Due between</b>	<b>Total</b>
<b>Financial assets measured at amortised cost</b>	<b>than 3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>US\$000</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	
Receivables	356	-	-	356
Cash and cash equivalents	3,276	-	-	3,276
Total	3,632	-	-	3,632

<b>2018</b>	<b>Due in less than</b>	<b>Due between</b>	<b>Due between</b>	<b>Total</b>
<b>Financial Liabilities measured at amortised cost</b>	<b>3 months</b>	<b>3 months to 1 year</b>	<b>1 to 5 years</b>	<b>US\$000</b>
	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>	<b>US\$000</b>
Trade payables	7,783	-	-	7,783
Other payables	4,319	-	-	4,319
Finance lease liabilities	147	-	-	147
Interest bearing loan	82,992	-	-	82,992
Total	95,241	-	-	95,241

**NOTE 21 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT  
(CONTINUED)**

2017	Due in less than 3 months US\$000	Due between 3 months to 1 year US\$000	Due between 1 to 5 years US\$000	Total US\$000
Financial Liabilities measured at amortised cost				
Trade payables	7,694	-	707	8,401
Other payables	2,813	191	-	3,004
Finance lease liabilities	132	398	147	677
Interest bearing loan	76,483	-	-	76,483
	87,122	589	854	88,565

All financial assets and liabilities are measured at amortized costs. No financial assets or liabilities are measured at fair value therefore no gain or losses have been recorded through other comprehensive income.

*Market price of minerals risk*

The Group's business exposes it to the effects of changes in the market price of minerals, primarily gold. Severe changes in the market price of gold may affect the recoverability of the Group's investments in its mine, exploration assets and mining rights, and of the Group's intercompany receivables. The supply and demand for gold, the level of interest rates, the rate of inflation, investment decisions by large holders of gold including governmental reserves, and stability of exchange rates can all cause significant fluctuations in the market price of gold. Such external economic factors are in turn influenced by changes in international investment patterns and monetary systems and political developments.

*Credit risk*

The Group is exposed to credit risk in so far as it deposits cash with its banks as detailed in Note 14. However, the banks used are international institutions of the highest standing. In addition the Group is exposed to sovereign risk in so far as it is owed recoverable sales tax, as detailed in Note 12, by the government of Peru.

*Interest rate risk*

The Group has debt denominated in US dollars and is therefore exposed to movements in US dollar interest rates. This debt bears interest at 6.17% over LIBOR. A change in LIBOR of +/- 1% would not have a material effect on the financial results of the Group. It is the policy of the Group to settle trade payables within agreed terms so that no interest is incurred on those liabilities.

Additionally, there are risks specifically related to the COFIDE Bridge Loan. For further information, please refer to Note 1 Basis of Preparation and Going Concern on page 17.

**NOTE 22 - CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES**

The Group is subject to various laws and regulations governing its mining, development and exploration activities. These laws and regulations are continually changing and generally becoming more restrictive. The Group has made, and expects to make in the future, expenditures to comply with such laws and regulations. The Group estimates an amount of \$934,000 (2017 - \$255,000) as contingencies related to environmental issues.

## **NOTE 22 - CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)**

During 2013, the Group was issued tax reassessments by the Peruvian tax authorities for the years ended 31 December 2008, 2009 and 2011 related to the deductibility of depreciation claimed by the Group. The appeal filed by the Group with the tax authorities was unsuccessful and the Group subsequently filed an appeal with the Peruvian Tax Court. If the Group is unsuccessful in its appeal of the reassessments, taxes in the amount of approximately \$1,403,000 (2017 - \$1,456,000) would be payable.

The Group entered into contracts with a legal firm in connection with the Arbitration process described in Note 1 and with a legal advisor in connection with legal processes related to the COFIDE outstanding loan, also described in Note 1. These contracts include success fees for an aggregate amount of \$380,000 (2017 - \$380,000).

The Group entered into a contract with Empresa de Generacion Electrica San Gaban S.A. for the supply of power during the construction and operation stages of the Ollachea Project. This contract included certain minimum power usages for each of the construction and operation stages. In March 2017 the Group entered into an amended power contract extending the term to start the construction stage for sixty months from 1 March 2017. If the contract is terminated due to the construction stage not commencing within the sixty months term, the Group would have to pay a penalty for an amount equivalent to approximately \$2,400,000. Otherwise, the Group agreed to pay a fixed monthly compensation for an amount equivalent to approximately \$11,000 for a period of nine and a half years starting on the seventh month after Ollachea commencing the operation stage.

In June 2015, the Group secured a \$70,000,000 Bridge Loan from COFIDE. The financial structuring costs related to the Bridge Loan included a 0.9% net smelter return royalty on gold production from the Ollachea Project granted to Sherpa. The Group would have the right to buyback and cancel this royalty from Sherpa by paying a buy-back fee of \$5,566,000. In August 2013, the Macquarie Finance Facility was amended to increase the amount available by \$10,000,000. As a condition of drawing down these funds the Group awarded a 1% royalty on gross revenue minus refining costs on gold sales from the Group's Ollachea Project. The Group would have the right to buyback and cancel this royalty from Macquarie Bank by paying a buyback fee of \$5,000,000. For additional details please refer to Note 18.

## **NOTE 23 - RELATED PARTIES**

During the year ended 31 December 2018, the Group did not enter into transactions with related parties with the exception of directors and key management as disclosed on Note 7. As at 31 December 2018, the Group owed \$67,000 to directors and key management.

During the year ended 31 December 2017, the Group did not enter into transactions with related parties with the exception of directors and key management as disclosed on Note 7. As at 31 December 2017, the Group owed \$169,000 to directors and key management.

## **NOTE 24 - SUBSEQUENT EVENTS**

There have been no subsequent events between the end of the period date and the date of filing of the financial statements.

**STAND ALONE ACCOUNTS OF  
MINERA IRL LIMITED**

**FOR THE YEAR ENDED  
31 DECEMBER 2018**



**STATEMENT OF TOTAL COMPREHENSIVE INCOME**  
**For the years ended 31 December 2018 and 2017**

	Notes	2018 US\$000	2017 US\$000
Administration expenses	3	(1,422)	(1,373)
<b>Operating loss</b>		<b>(1,422)</b>	<b>(1,373)</b>
Financial expenses	4	-	(597)
Intercompany interest	4	(2,728)	(2,654)
Royalty buyback provision reversal	10	-	3,835
<b>Loss for the year attributable to the equity shareholders of the parent</b>		<b>(4,150)</b>	<b>(789)</b>
<b>Total comprehensive loss for the year attributable to the equity shareholders of the parent</b>		<b>(4,150)</b>	<b>(789)</b>

**STATEMENT OF FINANCIAL POSITION**  
**As at 31 December 2018 and 2017**

		2018	2017
	Notas	US\$000	US\$000
<b>Assets</b>			
Other receivables and pre-payments		33	33
Intercompany receivables	5	7,438	7,438
<b>Total current assets</b>		<b>7,471</b>	<b>7,471</b>
Intangible assets	6	9,351	9,351
Investment in Subsidiaries	7	117,331	117,331
<b>Total non-current assets</b>		<b>126,682</b>	<b>126,682</b>
<b>Total assets</b>		<b>134,153</b>	<b>134,153</b>
<b>Liabilities</b>			
Trade and other payables	12	301	390
<b>Total current liabilities</b>		<b>301</b>	<b>390</b>
Intercompany liabilities	11	48,245	44,006
<b>Total non-current liabilities</b>		<b>48,245</b>	<b>44,006</b>
<b>Total liabilities</b>		<b>48,546</b>	<b>44,396</b>
<b>Equity</b>			
Share Capital	8	159,012	159,012
Share options reserve	9	433	479
Accumulated losses		(73,838)	(69,734)
<b>Total equity attributable to the equity shareholders of the parent</b>		<b>85,607</b>	<b>89,757</b>
<b>Total equity and liabilities</b>		<b>134,153</b>	<b>134,153</b>

**STATEMENT OF CHANGES IN EQUITY**  
**For the years ended 31 December 2018 and 2017**

	Number of shares	Share Capital US\$000	Share options reserve US\$000	(Accumulated Losses ) Retained Earnings US\$000	Total US\$000
<b>Balance as at 1 January 2017</b>	231,135,028	159,012	663	(69,129)	90,546
Loss for the year	-	-	-	(789)	(789)
Total comprehensive loss	-	-	-	(789)	(789)
Expiry/lapse of share options	-	-	(184)	184	-
Total transactions with owners, recognised directly in equity	-	-	(184)	184	-
<b>Balance as at 31 December 2017</b>	231,135,028	159,012	479	(69,734)	89,757

	Number of shares	Share Capital US\$000	Share options reserve US\$000	(Accumulated Losses ) Retained Earnings US\$000	Total US\$000
<b>Balance as at 1 January 2018</b>	231,135,028	159,012	479	(69,734)	89,757
Loss for the year	-	-	-	(4,150)	(4,150)
Total comprehensive loss	-	-	-	(4,150)	(4,150)
Expiry/lapse of share options	-	-	(46)	46	-
Total transactions with owners, recognised directly in equity	-	-	(46)	46	-
<b>Balance as at 31 December 2018</b>	231,135,028	159,012	433	(73,838)	85,607

**CASH FLOW STATEMENT**  
**For the years ended 31 December 2018 and 2017**

	Notes	2018 US\$000	, 2017 US\$000
<b>Cash flows from operating activities:</b>			
Loss		(4,150)	(789)
Finance expenses	4	-	597
Intercompany interest	4	2,728	2,654
Royalty buyback provision reversal	10	-	(3,835)
Increase in prepayments		-	(12)
Decrease in accounts payable		(89)	(201)
<b>Cash used in operating activities</b>		<b>(1,511)</b>	<b>(1,586)</b>
<b>Cash flows from financing activities</b>			
Funds transferred from subsidiary	11	1,511	1,586
<b>Net changes in cash balance</b>		<b>-</b>	<b>-</b>
<b>Cash balance at beginning of year</b>		<b>-</b>	<b>-</b>
<b>Cash balance at end of year</b>		<b>-</b>	<b>-</b>

## **NOTES TO THE FINANCIAL STATEMENTS**

**For the year ended 31 December 2018**

### **Note 1 – Nature and Continuance of Operations**

Minera IRL Limited (the “Company”) is registered in Jersey and its registered office is at Hawksford House, 15 Esplanade, St. Helier, Jersey, JE1 1RB, Channel Islands. The principal activity of the Company and its subsidiaries is the exploration for and development of mines for the extraction of gold.

The financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future.

At 31 December 2018, the Company had a working capital balance of \$7,170,000. Working capital is defined as current assets less current liabilities. The Company has no operations by itself and does not generate revenue, does not have a bank account and carries out its operations through its subsidiaries. All payments are made through Minera IRL SA, one of its Peruvian subsidiaries.

On 8 June 2015, the Company announced that it had arranged a \$70,000,000 secured finance facility (the “Bridge Loan”) structured by the Peruvian state-owned development and promotion bank, Corporación Financiera de Desarrollo S.A. (“COFIDE”) and syndicated through Goldman Sachs Bank USA. The Bridge Loan was part of a senior project credit finance facility of up to \$240,000,000 described in a letter of mandate signed by COFIDE and Minera IRL (“Senior Project Debt Facility”). The Senior Project Debt Facility was to be structured by COFIDE, in conjunction with Minera IRL, to build the Ollachea Gold Project (the “Ollachea Project”).

In March 2017 COFIDE terminated the letter of mandate without providing any reason for their decision.

On 6 June 2017 the Company announced it had obtained an order from the Superior Court of Justice of Lima as a precautionary measure to protect its assets and investments in the Ollachea project; and its intention to initiate an arbitration process. The order temporarily suspends any enforcement proceedings against the Company regarding the repayment of the \$ 70,000,000 Bridge Loan granted by COFIDE as well as the last interest installment of approximately \$1,240,000 both of which were due on 5 June 2017

On 20 June 2017 the Company announced it had filed a request for an arbitration against COFIDE with the Arbitration Centre of the Lima Chamber of Commerce. The intention to commence the Arbitration had been previously announced by the press release of 6 June 2017.

On 4 October 2017 the Company announced the Superior Council of Arbitration of the Chamber of Commerce of Lima rejected the arguments submitted by COFIDE in opposition to beginning the Arbitration requested in June, 2017. The Council admitted the Company’s claims despite COFIDE’s objections, and decided that the Arbitration should continue.

On 24 September 2018 the Company released an update on the arbitration process against COFIDE. From February to August of this year, three documents have been submitted to the Arbitration Panel:

- 1.- The Company’s Complaints submitted in February
- 2.- COFIDE’s jurisdictional objections, Answer and Counterclaim submitted in May, and
- 3.- The Company’s Reply submitted in August.

Up to this date, the Arbitration Process is following its normal course.

The Bridge Loan is secured by the Ollachea Project’s assets, mining reserves, mining concessions and rights and a pledge of the shares of the Company’s subsidiary, Compañía Minera Kuri Kullu S.A., which holds the Ollachea Project. If the Company is not able to secure an alternative source of funds to refinance the debt with COFIDE it may have to relinquish its ownership of the subsidiary, Campaña Minera Kuri

Kullu S.A. and therefore the Ollachea Project. All net assets associated with the Ollachea Project would be fully impaired as a result. The assets of the Corihuarmi Mine are not included as a guarantee of the Bridge Loan.

The Company is currently evaluating its options and seeking alternative source of financing its Ollachea Project.

The Directors consider that an alternative source of funding will be secured to be able to repay the Bridge Loan and obtain the necessary investment to develop the Ollachea Project. There can be no guarantee that alternative funding will be obtained within the required timescale.

The Directors have therefore prepared the financial statements on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future.

## Note 2 – Basis of Preparation

The financial statements are presented in United States dollars, rounded to the nearest thousand. The financial statements have been prepared under the historical cost convention unless otherwise specified.

According the Companies (Jersey) Law of 1991 this report is not mandatory and has not been filed with the Companies Registry in Jersey. This report has been prepared by management at request of the Peruvian securities regulator in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") except for IFRS 10 Consolidated Financial Statements. This standard requires a controlling entity to prepare Consolidated Financial Statements of a Group in which the assets, liabilities, equity, income and cash flows of the parent and its subsidiaries are presented as those of a single economic entity.

## Note 3 – Administrative expenses

	2018 US\$000	2017 US\$000
Director fees	120	66
Travel expenses	82	43
Salaries and other benefits	714	603
Professional fees	467	591
Other	39	70
Administrative expenses for the years	<b>1,422</b>	1,373

## Note 4 – Finance expense

	2018 \$000	2017 \$ 000
Macquarie Bank royalty buyback provision	-	474
Amortization of deferred finance expenses	-	123
Intercompany interests	2,728	2,654
Financial expenses for the years	<b>2,728</b>	3,251

## Note 5 – Intercompany receivables

	2018 US\$000	2017 US\$000
Intercompany receivable from Minera Kuri Kullu SA	7,438	7,438
Balance at 31 December 2018 and 2017	7,438	7,438

All amounts due are interest free and repayable on demand.

## Note 6 – Intangible Assets

The balance of intangible assets is the amount invested and capitalized on the Ollachea Gold Project which is owned by the Company's subsidiary Minera Kuri Kullu SA. There were no changes to the amount invested during the years ended 31 December 2018 and 2017.

## Note 7 – Investment in Subsidiaries

	2018 US\$000	2017 US\$000
Balance at 1 January	117,331	117,331
Balance at 1 December	117,331	117,331

The Company holds investments in the following subsidiaries:

	Location	Ownership
Minera IRL S.A. ("MIRLSA") – MIRLTD's subsidiary	Peru	100%
Compañía Minera Kuri Kullu S.A. ("MKKSA") – MIRLSA's subsidiary	Peru	100%
Minera IRL Argentina S.A. – MIRLTD's subsidiary	Argentina	100%
Minera IRL Chile S.A. – MIRLTD's subsidiary	Chile	100%

## Note 8 - Share Capital

The Company has an authorized share capital of an unlimited number of Common Shares without par value, of which 231,135,028 have been issued as of the date of this report. Each share grants its holder the right to one vote. All shares of the Company have the same rank in terms of dividends, number of votes and participation in the assets at the time of dissolution or liquidation of the Company.

There was no share capital issuances during the year ended 31 December 2018.

## Note 9 – Share options reserve

Minera IRL Limited has a share option scheme for the benefit of directors, employees and certain consultants of the Company. The purpose of the scheme is to provide incentives to those people whose efforts and skills are most important to the success of the Company, and to ensure that the interests of the management of the Company are fully aligned with the interests of shareholders. The terms of the scheme allow the directors to decide at the date of grant when the option becomes exercisable. Options granted before 17 November 2009 allow for the exercise of half of the options after one year from the date of grant and half after two years. Options granted on or after 17 November 2009 allow immediate exercise. The options lapse on the fifth anniversary of the date of grant and have no performance conditions.

## Note 9 – Share options reserve (continued)

	2018		2017	
	Number of share options	Weighted average exercise price (£)	Number of share Options	Weighted average exercise price (£)
Outstanding - beginning of year	700,000	0.15	2,000,000	0.51
Expired during the year	(700,000)	0.15	(1,300,000)	0.71
Outstanding - end of the year	-	-	700,000	0.15
Exercisable - end of the year	-	-	700,000	0.15

On the expiry and lapsing of 700,000 options during the year ended 31 December 2018, a total of \$46,000 was transferred from share option reserve to accumulated losses.

On the expiry and lapsing of 1,300,000 options during the year ended 31 December 2017, a total of \$184,000 was transferred from share option reserve to accumulated losses.

As at 31 December 2018 all share options issued have expired.

### Other Share Options

	2018		2017	
	Number of share options	Weighted average exercise price (\$)	Number of share options	Weighted average exercise price (\$)
Outstanding - beginning of year	11,556,751	0.16	11,556,751	0.16
Outstanding - end of the year	11,556,751	0.16	11,556,751	0.16
Exercisable - end of the year	-	-	-	-

As part of the fees paid in connection with the Bridge Loan to the financial advisor Inversiones y Asesoría SHERPA S.C.R.L. (“Sherpa”), Minera IRL Limited would be required to grant 11,556,751 options (subject to the approvals of regulatory entities and shareholders). Each option would be exercisable to purchase one ordinary share of the Company at a price of C\$0.20 (\$0.16) per share at any time on or prior to the date that is 360 days after the commencement of commercial production from the Ollachea Gold Project. During the General Shareholders' meeting held on November 30, 2016, the resolution granting the directors the authorization to issue shares was rejected, so these stock options have not been granted.

## Note 10 – Royalty buyback liabilities

The Company has granted royalties on the Ollachea Project to Macquarie Bank that can be bought out at the Company's option. The Company intended, until end of 2017, to exercise those options and accrued the present value of the buyback amount of this royalty until the end of 2017.

At the end of the 2017, the Company reviewed the feasibility and probability of settling this royalty buyback option and concluded that, given current cash constraints and the arbitration process in relation to the COFIDE loan described in Note 1, it was not in the position to determine with reasonable certainty if and when these royalties could be settled. Consequently this provision was fully derecognized as at 31 December 2017.

### Note 11 – Intercompany liabilities

	2018 US\$000	2017 US\$000
Intercompany payable to Minera IRL S.A.	48,245	44,006
Balance at 31 diciembre 2018 and 2017	48,245	44,006

During the year ended 31 December 2018 the balance payable by the Company to its subsidiary Minera IRL Peru SA has increased by \$1,511,000 due the payments made by Minera IRL SA on behalf of the Company as well as an increase of \$2,728,000 in interest charged by the subsidiary. There were no other intercompany transactions.

### Note 12 – Trade and other payables

	2018 US\$000	2017 US\$000
Fees and services	171	157
Other	130	233
Balance at 31 December 2018 and 2017	301	390

### Note 13 – Contingent liabilities

In August 2013, the Macquarie Finance Facility was amended to increase the amount available by \$10,000,000. As a condition of drawing down these funds the Company awarded a 1% royalty on gross revenue minus refining costs on gold production from the Company's Ollachea Project. The Company would have the right to buyback and cancel this royalty by paying a buyback fee of \$5,000,000.