

**Orosur Mining Inc.  
Consolidated Financial Statements  
For the years ended May 31, 2017 and 2016**

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## Management's Report

The consolidated financial statements of Orosur Mining Inc. (the Company) have been prepared by and are the responsibility of the Company's management.

The consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. The consolidated financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis, based on currently available information, in order to ensure that the consolidated financial statements are presented fairly, in all material respects.

Management maintains systems of internal accounting and administrative controls to obtain, on a reasonable basis, assurance that the Company's assets are safeguarded, transactions are executed and recorded according to management's authorization, proper records are maintained and relevant and reliable financial information is produced.

The Board of Directors (the Board) is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee meets periodically with management, as well as external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the quarterly and annual reports, the financial statements and the external auditor's report. The Audit Committee reports its findings to the Board for consideration when approving the financial statements for issuance to shareholders. The Audit Committee also considers, for review by the Board and approval by shareholders, the engagement or reappointment of the external auditors. The consolidated financial statements have been audited by PricewaterhouseCoopers LLP, Chartered Professional Accountants, Licensed Public Accountants, in accordance with Canadian generally accepted auditing standards. The external auditors have full and unrestricted access to the Audit Committee to discuss the scope of their audit, the adequacy of the system of internal controls and review financial reporting issues.

**Ignacio Salazar**

Chief Executive Officer

**Alejandra López**

Chief Financial Officer

August 29, 2017

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## Independent Auditors' Report

### To the Shareholders of Orosur Mining Inc.

We have audited the accompanying consolidated financial statements of Orosur Mining Inc. and its subsidiaries, which comprise the consolidated statements of financial position as at May 31, 2017 and May 31, 2016 and the consolidated statements of profit (loss) and comprehensive profit (loss), changes in shareholders' equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

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

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Orosur Mining Inc. and its subsidiaries as at May 31, 2017 and May 31, 2016 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**

Toronto, Ontario  
August 29, 2017

**Orosur Mining Inc.**  
**Consolidated Statements of Financial Position**  
(Thousands of United States Dollars, except where indicated)

		As at May 31 2017(\$)	As at May 31 2016(\$)
<b>Assets</b>			
	<b>Note</b>		
Cash		3,357	4,320
Accounts receivable and other assets	5	1,519	1,770
Inventories	6	13,157	12,069
<b>Total current assets</b>		<b>18,033</b>	<b>18,159</b>
Accounts receivable and other assets	5	550	550
Property plant and equipment and development costs	7	16,160	10,106
Exploration and evaluation costs	8	17,677	17,250
Deferred income tax assets	14	3,115	2,534
Restricted cash		229	221
<b>Total non-current assets</b>		<b>37,731</b>	<b>30,661</b>
<b>Total Assets</b>		<b>55,764</b>	<b>48,820</b>
<b>Liabilities and Shareholders' Equity</b>			
Trade payables and other accrued liabilities	5	14,518	10,586
Current portion of long-term debt	20	202	253
Environmental rehabilitation provision	10	243	360
<b>Total current liabilities</b>		<b>14,963</b>	<b>11,199</b>
Long-term debt	20	201	99
Environmental rehabilitation provision	10	5,405	5,327
<b>Total non-current liabilities</b>		<b>5,606</b>	<b>5,426</b>
<b>Total liabilities</b>		<b>20,569</b>	<b>16,625</b>
Capital stock	11	61,162	60,751
Contributed surplus		5,836	5,925
Deficit		(30,913)	(33,497)
Currency translation reserve		(890)	(984)
<b>Total shareholders' equity</b>		<b>35,195</b>	<b>32,195</b>
<b>Total liabilities and shareholders' equity</b>		<b>55,764</b>	<b>48,820</b>

Approved on behalf of the Board:

Ignacio Salazar  
Director / CEO

John Walmsley  
Chairman

**Orosur Mining Inc.**  
**Consolidated Statements of Profit/(Loss) and Comprehensive Profit/(Loss)**  
(Thousands of United States Dollars except for earnings per share amounts)

<b>For the years ended May 31</b>	<b>Note</b>	<b>2017 (\$)</b>	<b>2016 (\$)</b>
Sales		44,226	42,866
Cost of sales	22	(40,271)	(42,073)
<b>Gross profit</b>		<b>3,955</b>	<b>793</b>
Corporate and administrative expenses		(2,398)	(2150)
Restructuring costs		143	(1,709)
Exploration and evaluation costs written off	8	(131)	(351)
Impairment of assets	9	-	(4,229)
Obsolescence provision		(113)	(39)
Other income	15	1,527	4,009
Finance cost net	21	(164)	24
Derivative gain/(loss)	17,21	(458)	158
Foreign exchange gain/(loss)		(333)	336
<b>Profit/(Loss) before income tax</b>		<b>(1,927)</b>	<b>(3,951)</b>
		<b>2,028</b>	<b>(3,158)</b>
Recovery for income taxes	14	557	1,948
<b>Total Profit/(loss) for the period</b>		<b>2,585</b>	<b>(1,210)</b>
<b>Other comprehensive profit/(loss)</b>			
Cumulative translation adjustment		93	(727)
<b>Total comprehensive profit/(loss) for the period</b>		<b>2,678</b>	<b>(1,937)</b>
<b>Profit/(Loss) per common share</b>			
<b>Basic</b>		<b>0.03</b>	<b>(0.01)</b>
<b>Diluted</b>	19	<b>0.03</b>	<b>(0.01)</b>

**Orosur Mining Inc.**  
**Consolidated Statements of Cash Flows**  
(Thousands of United States Dollars, except where indicated)

For the years ended May 31	Note	2017 (\$)	2016 (\$)
<b>Net inflow (outflow) of cash related to the following activities</b>			
<b>Cash flow from operating activities</b>			
Net profit/(loss) for the year		2,585	(1,210)
<i>Adjustments to reconcile net income to net cash provided from operating activities:</i>			
Depreciation	7	7,143	5,975
Impairment of assets	7	-	4,229
Exploration and evaluation expenses written off	8	131	351
Obsolescence provision		113	39
Fair value of derivatives	17	458	(92)
Accretion of asset retirement obligation	10	18	(210)
Deferred income tax assets	14(b)	(581)	(1,983)
Stock based compensation	12	93	43
Loss/(gain) on sale of property, plant and equipment		(241)	116
Other		(55)	345
<b>Subtotal</b>		<b>9,664</b>	<b>7,603</b>
<i>Changes in working capital</i>			
Accounts receivable and other assets		(211)	(38)
Inventories		(1,200)	2,253
Trade payables and other accrued liabilities		3,932	(3,255)
<b>Net cash generated from operating activities</b>		<b>12,185</b>	<b>6,563</b>
<b>Cash flow from investing activities</b>			
Purchase of property, plant and equipment and development costs	7,18	(10,621)	(3,701)
Payments for environmental rehabilitation	10	(213)	(241)
Proceeds from the sale of fixed assets		240	123
Exploration and evaluation expenditure assets	8	(2,604)	(2,793)
<b>Net cash used in investing activities</b>		<b>(13,198)</b>	<b>(6,612)</b>
<b>Cash flow from financing activities</b>			
Proceeds on sale of common shares of Anillo SPA		-	710
Loan proceeds	20	320	-
Loan payments	20	(270)	(1,128)
<b>Net cash generated from/(used in) financing activities</b>		<b>50</b>	<b>(418)</b>
Decrease in cash		(963)	(467)
Cash at the beginning of year		4,320	4,787
<b>Cash at the end of year</b>		<b>3,357</b>	<b>4,320</b>

**Orosur Mining Inc.**  
**Consolidated Statements of Changes in Shareholders' Equity**  
Thousands of United States Dollars, except where indicated

<b>For the years ended May 31</b>	<b>Note</b>	<b>2017 (\$)</b>	<b>2016 (\$)</b>
<b>Capital stock</b>			
Balance at beginning of year		60,751	60,544
Termination consideration		-	195
Exercise of stock options		377	-
Grant of shares		34	12
Balance at end of year		<u>61,162</u>	<u>60,751</u>
<b>Broker warrants</b>			
Balance at beginning of year		-	62
Warrants expiration		-	(62)
Balance at end of year		<u>-</u>	<u>-</u>
<b>Contributed surplus</b>			
Balance at beginning of year		5,925	5,824
Stock based compensation recognized	12	93	43
Exercise of stock options	12	(182)	(4)
Warrants expiration		-	62
Balance at end of year		<u>5,836</u>	<u>5,925</u>
<b>Deficit</b>			
Balance at beginning of year		(33,497)	(32,287)
Net profit/(loss) for the year		2,585	(1,210)
Balance at end of year		<u>(30,913)</u>	<u>(33,497)</u>
<b>Currency translation reserve</b>			
		(890)	(984)
<b>Shareholders' equity at end of year</b>		<u>35,195</u>	<u>32,195</u>

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## 1. Nature of Operations

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Orosur Mining Inc. (“Orosur” or “the Company”) is a gold production, development and exploration company focused on producing gold as well as identifying and developing mineral opportunities either directly or through earn-in agreements.

Orosur was incorporated and is domiciled in Canada and is governed by the corporate laws of the Yukon Territory, Canada. The Company’s shares are listed on the Toronto Stock Exchange (TSX) in Canada and the Alternative Investment Market (AIM) of the London Stock Exchange in the United Kingdom. The Company’s corporate office is located at Apoquindo 5583 of 31 Las Condes, Santiago de Chile, Chile, and the address of its registered office is Suite 250 - 1075 West Georgia Street, Vancouver, British Columbia, Canada, V6E 3C9.

Orosur operates in Uruguay, Chile and Colombia. In Uruguay, the Company operates the San Gregorio gold mine, and possesses a large land holding with active near mine and regional exploration programs. Gold is produced in the form of doré, which is shipped to refineries for final processing. In Chile and Colombia, the Company conducts exploration and development activities.

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## 2. Basis of preparation

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The consolidated financial statements (“financial statements”) of Orosur have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as issued by the International Accounting Standards Board (IASB). These financial statements were prepared on a going concern basis under the historical cost method except for certain financial assets and liabilities which are measured at fair value. The significant accounting policies are presented in Note 3 and have been consistently applied in each of the periods presented. Significant accounting estimates, judgments and assumptions used or exercised by management in the preparation of these financial statements are presented in Note 4.

These financial statements were authorized by the Board of Directors for issue on August 29, 2017.

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## 3. Significant Accounting Policies

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The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Principles of Consolidation: The consolidated financial statements include the accounts of Orosur and its subsidiaries (collectively “the Group”). Subsidiaries are entities controlled directly or indirectly by Orosur. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control is obtained until the date control ceases. The Company’s list of subsidiaries is included in Note 13 (a) and are all 100% owned by Orosur with the exception of Anillo SPA, which is currently 82% owned by Orosur. All inter-company transactions and balances have been eliminated upon consolidation.

(b) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currencies of each of the Company's subsidiaries are listed in Note 13 (a). The consolidated financial statements are presented in United States dollars which is the Group's presentation currency.

(ii) Transactions and balances

Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities, expenses and other income arising from foreign currency transactions are translated at the exchange rate in effect at the date of the transaction. Exchange gains or losses arising from the translation are included in the determination of losses in the current year.

(iii) Group companies

The results and financial position of all entities in the Group that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

- (a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (b) equity transactions are translated at the closing exchange rate;
- (c) income and expenses for each income statement are translated at the exchange rate in effect on date of the transaction (or at average exchange rates for the reporting period); and
- (d) all resulting exchange differences are recognized in other comprehensive income / loss and accumulated as a separate component of equity (currency translation reserve).

(c) Cash: Cash and cash equivalents consist of cash in bank. Restricted cash is cash held in banks that is not available for general corporate use.

(d) Property, plant and equipment and development costs: Property, plant and equipment are tangible assets including land, buildings, processing facilities, mobile and stationary equipment, furniture and other office equipment. The net present value of costs capitalized when recognizing environmental obligations are also recorded within property, plant and equipment.

Property, plant and equipment are recorded at cost and carried net of accumulated depreciation and accumulated impairment losses. The initial cost of an asset is comprised of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation and, for qualifying assets, capitalized borrowing costs. Property, plant and equipment items are depreciated using the straight-line method over the estimated useful life of the asset, with the exception of land which is not depreciated and the tailings dam facilities which are depreciated according to the waste received for its total capacity. Each part of an item with a cost that is significant in relation to the total cost of the item is depreciated separately if their useful lives differ. Expenditures that extend the useful lives of existing facilities or equipment are capitalized and amortized over the remaining useful lives of the assets. Repairs and maintenance expenditures are expensed as incurred. The following depreciation methods and useful lives are used for depreciating each category of asset under property, plant and equipment:

	Depreciation method	Useful life (years)
Buildings	Straight line	3 years
Machinery and equipment	Straight line	Range of 2 to 3 years
Processing plant	Straight line	3 years
Computer equipment and software	Straight line	3 years

Vehicles	Straight line	3 years
Furniture and office equipment	Straight line	3 years

Development costs include underground mine development costs and open pit development costs. At the underground mine, development costs are incurred to build new shafts, drifts and ramps that will enable physical access to ore underground. These underground development costs are capitalized at cost as incurred. In open pit operations, it is necessary to remove overburden and other waste materials to access ore from which minerals can be extracted economically. The process of mining overburden and waste materials is referred to as stripping. Stripping costs incurred in order to provide initial access to the ore body (referred to as pre-production stripping) are capitalized as open pit mine development costs at its cost. Stripping costs incurred during the production stage of a pit are accounted for as costs of the inventory produced during the period that the stripping costs were incurred, unless these costs are expected to provide future economic benefit. Interest expense attributable to the cost of developing mine properties is capitalized until the property starts commercial production. Development costs also include exploration and evaluation costs for those properties that are currently in operation, or development has commenced, or for which proven and probable reserves have been declared and the Company intends to commercially develop the property. Development expenditure is accumulated separately for each area in which economically recoverable mineral resources have been identified and are reasonably assured.

No amortization is provided in respect of development costs until commencement of commercial production. Development costs are amortized and charged to operations using the units of production method based on the estimated life of each mine considering its recoverable proven and probable reserves. Any changes in useful lives derived from changes in proven and probable reserves are accounted for prospectively from the date of the change. Amounts shown as development costs are net of revenue earned prior to commercial production.

(e) Impairment of non-financial assets: The carrying amount of the Company's property, plant and equipment and development costs are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment is determined for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or group of assets, in which case, the individual assets are grouped together into cash generating units ("CGU") for impairment purposes. Operating pits in Uruguay are considered together a CGU for impairment testing.

Impairment exists when the carrying amount of the CGU exceeds its recoverable amount. The impairment loss is the amount by which the carrying value exceeds the recoverable amount and such loss is recognized in the statement of income. The recoverable amount of an asset is the higher of its fair value less costs of disposal and its value in use.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the CGU in its present form and its eventual disposal. Estimated future cash-flows includes estimates of recoverable resources and commodity prices (considering historical prices, price trends and related factors) and estimated production related expenses discounted by the Company's pre-tax weighted average cost of capital with appropriate adjustment for the risk associated with the relevant unit.

Estimates of future net cash flows are based on ore reserves and mineral resources for which there is a high degree of confidence of economic extraction according to the Company's future mine plan.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and is usually obtained from an active market or binding sale agreement. Where neither of them exists, fair value is based on the best information available to reflect the amount the Company could receive for the CGU in an arm's length transaction which is often estimated using cash flow techniques.

A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized, such that the recoverable amount has increased. The recoverable amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of impairment loss is recognized immediately in profit or loss.

(f) Exploration and evaluation costs ("E&E"): Exploration and evaluation costs are those required to find a mineral property and determine commercial liability. E&E consist of:

- gathering exploration data through topographical and geological studies;
- exploratory drilling, trenching and sampling;
- determining the volume and grade of the resource;
- test work on geology, metallurgy, mining, geotechnical and environmental; and
- conducting engineering, marketing and financial studies.

E&E expenditure is capitalized under areas of interest defined by the Company and carried forward as an asset. Overhead costs that are directly attributable to E&E, but not directly attributable to an individual project or area, such as general advisory, the cost of a central exploration office or the cost of a mining tenements office are also allocated to areas of interest and capitalized. Depreciation of property, plant and equipment used in the exploration activities and exchange differences related to monetary assets and liabilities associated to the exploration activities are not capitalized and recognized as expenses as they are incurred. The Company also recognizes E&E costs as intangible assets when acquired as part of a business combination, or an asset purchase, such as rights to explore. These assets are recognized at an estimation of the fair value attributable to the mineral resources and exploration potential attributable to the property.

Acquired or capitalized E&E costs for a project are classified as such until the project demonstrates technical feasibility and commercial viability. Upon demonstrating technical feasibility and commercial viability, and subject to an impairment analysis, capitalized E&E costs are transferred to capitalized development costs within property, plant and equipment. Technical feasibility and commercial viability generally coincides with the establishment of proven and probable reserves; however, this determination may be impacted by management's assessment of certain modifying factors including: legal, environmental, social and governmental factors.

The recoverability of amounts shown for E&E costs is dependent upon the discovery of economically recoverable reserves. The exploration assets are reassessed on a regular basis for impairment. An impairment of an exploration asset occurs when at least one the following conditions are met:

- the Company's right to explore in an area of interest has expired or will expire in the near future and is not expected to be renewed;
- the Company has strategically decided to discontinue activities in the area of interest;
- substantive exploration expenditure on further exploration in the area of interest is neither budgeted nor planned in the near future and no negotiations to sell the project or farm it out are planned or considerably advanced;
- sufficient work has been performed to indicate that the carrying amount of the expenditure carried forward as an asset will not be fully recovered, even though a viable mine has been discovered.

The capitalized E&E related to the project is written off in the period it is considered impaired under the criteria outlined above.

An E&E cost incurred before any legal rights to explore an area of interest, or after an area was previously impaired, are expensed as incurred. Capitalized E&E costs are shown as an investing activity in the statement of cash flow, whereas E&E costs expensed as incurred are included under the Company's operating activities in the statement of cash flow.

(g) Segmented information:

The Company is a gold producer, develops its own exploration programs and evaluates mining assets acquisitions throughout Latin America. Accordingly, the Company identifies the following three operating segments that management reviews regularly in order to evaluate their performance and make decisions about resources to be allocated:

i) Production segment: The Company has only one producing asset, the San Gregorio gold operations in the north of Uruguay (UY) and minor satellite pits, the only producing gold mine in the country that generates the whole of the Company's ordinary revenues. The Company sells all its metal to one customer.

ii) Exploration segment: The Company carries on exploration programs on its mineral portfolio in Uruguay, Chile (CH) and Colombia with the objective of adding reserves to its production profile and/or generating other kind of joint ventures and farm out agreements. The segment additionally includes the evaluation of mining assets acquisitions throughout Latin America.

iii) Corporate segment: The corporate segment includes general and administrative expenses and costs in connection with raising funds when needed to finance exploration programs, acquisition of assets and the development of mine operations.

(h) Inventories: Inventories include supplies and materials, ore stockpiles, gold in circuit and finished metals, and are measured at the lower of cost and net realizable value. Net realizable value for ore in stockpiles, gold in circuit and finished metals is calculated as the difference between the estimated gold prices based on historical, prevailing and long-term metal prices and estimated costs to complete production into a saleable form.

Materials and supplies include consumable stores and spare parts used in operations. Appropriate allowances for damage, obsolescence and slow moving items are recorded based on an identification process. Spare parts include spares that are regularly replaced, usually as part of a replacement programme (circulating spares). However, major spare parts on hand to ensure the uninterrupted operation of the production equipment before an unexpected breakdown or equipment failure and stand-by equipment are accounted for as property, plant and equipment and depreciated over the same period as the component they are associated with.

Ore stockpiles are comprised of coarse ore that has been extracted from the mine and, at the time of extraction, is expected to be processed into a saleable form. Stockpiles are determined through physical measurement and grade determined through assay testing. Costs are added to ore in stockpiles at the current mining cost per tonne and removed at the accumulated average cost per tonne. Ore with a marginal cutoff grade is stockpiled for potential future processing but is carried at zero value.

By using optimization studies for each project, the economic cut-off grade is determined for each ore stockpile. The grades consist of high, medium and low.

Gold in circuit represent materials that are currently being converted to a saleable product and are measured based on assays of the material fed to the processing plants and expected recoveries. The quantities of recoverable gold placed into the plant are reconciled by comparing the grades of ore fed into the plant to the quantities of gold actually recovered (metallurgical balance). Costs are added to gold in circuit at the current processing cost per ounce and removed at the accumulated average cost per ounce.

Finished metal inventories include gold and silver dore bullions before refining, and finished gold and silver ingots, and are valued at average production cost and are not marked to market. Average production cost represents the average cost of in process inventories prior to the refining process and any relevant refining costs. Sales and refining costs are not part of the cost of inventories.

Cost of inventories are determined using the absorption method which includes all the costs of purchase and conversion, including costs that are directly related to production and an allocation of fixed and variable production overheads, including depreciation of mine properties and of property, plant and equipment used in mining and processing the ore. Production costs also include any royalty taxes payable.

(i) Income taxes: The income tax expense or benefit for the period consist of two components: current and deferred.

Current income tax is the expected tax payable on the taxable profit for the year. The tax is calculated using tax rates and laws that were enacted or substantively enacted at the balance sheet date in each of the jurisdictions and includes any adjustments for taxes payable or recovery in respect of prior periods.

Deferred income tax is recognized in respect of temporary differences between the carrying amount of assets and liabilities in the consolidated balance sheet and the corresponding tax bases used in the computation of taxable profit. Deferred tax is calculated using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related future income tax asset is realized or the future income tax liability is settled.

Deferred tax assets are recognized for all deductible temporary differences and unused tax losses to the extent it is probable future taxable profits will be available against which they can be utilized. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset. Income tax expense is recognized in the consolidated statement of income except to the extent it relates to a business combination or other items recognized directly in equity.

Deferred tax assets and/or liabilities are not recognized on temporary differences that arise in the initial recognition of goodwill or assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and with respect to taxable temporary differences associated with investments in subsidiaries where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

(j) Provision for environmental rehabilitation: Mining extraction and processing activities normally give rise to obligations for environmental rehabilitation. Environmental rehabilitation of sites where the Company operates includes the dismantling and demolition of infrastructure, the removal or treatment of waste materials and remediation of disturbed areas, including tailings ponds closure. A provision for the cost of each rehabilitation program is recognized in the accounting period when the legal or constructive obligation arising from the related environmental disturbance occurs and reliable estimates of the required rehabilitation costs can be made. Expenditures may occur before and after the closure and can continue for an extended period of time depending on rehabilitation requirements. Costs arising from unforeseen circumstances, such as the contamination caused by unplanned discharges, are included in operating costs.

The Company records a liability and a corresponding asset for the present value of the estimated costs of legal and constructive obligations for future site reclamation and closure. The estimated present value of the obligation is reassessed on an annual basis or when new material information becomes available, on the basis of a closure plan to reflect known developments, update costs estimates and revise estimated lives of operations. Increases or decreases to the obligation usually arise due to changes in legal or regulatory requirements, methods of reclamation, cost estimates or discount rates in light of the significant judgments and estimates involved. Although the ultimate cost to be incurred is uncertain, the Company's businesses estimate their respective costs based on feasibility and engineering studies using current restoration standards and techniques and industry guidelines, on a site by site basis.

The initial net present value of costs capitalized when recognizing an environmental obligation are recorded as an asset within property, plant and equipment, representing part of the cost of acquiring the future economic benefits of the operation. The asset retirement cost is expensed using a systematic and rational method over its useful life, and is included as an operation cost. In subsequent periods, the Company recognizes the changes in the liability for an environmental obligation resulting from the passage of time and the revisions to either the timing or amount of the original estimate of undiscounted cash flows.

Changes resulting from revisions to the timing or the amount of the original undiscounted cash flows are recognized as an increase or decrease in the carrying amount of the rehabilitation provision against an increase or decrease in the corresponding value of the related asset. The principal factors that can cause expected cash flows to change are the construction of new processing facilities, changes in the life of mine plan or reserves, changes in the amounts of waste to remove or treat, foreign exchange rates and inflation, the emergence of new restoration techniques, experiences at other mine sites, and changes in laws and regulations governing the protection of the environment.

Rehabilitation provisions are measured at the expected value of future cash flows discounted to their present value using a current US dollar real risk free pre-tax discount rate. Changes due to the passage of time, meaning the “unwinding” of the discount applied in establishing the net present value of the liability, referred to as accretion expense, is charged as a finance cost in each accounting period and results in an increase in the amount of the provision.

As noted above, the ultimate cost of the close down and restoration is uncertain and costs estimated can vary in response to many factors. As a result, there could be significant adjustments to the provision for close down and restoration which would affect future financial results. Significant judgment and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows.

(k) Revenue recognition: Revenue from mining operations is recognized after shipment of gold to third party refineries, when the sales price is determinable, title has passed to the customer and collection of the sale is reasonably assured.

(l) Share-based payments: The Company has a stock-based compensation plan and recognizes compensation expense for option awards. Compensation expense is measured at fair value at the grant date using the Black-Scholes option pricing model and is recognized over the vesting period with a corresponding increase to contributed surplus. Upon exercise, the proceeds of the options are credited to capital stock at the option price and the fair value of the options, as previously recorded, is reclassified from contributed surplus to capital stock. Stock options issued to persons other than employees are accounted for at fair value and deferred and amortized over the relevant service period.

The Company uses the graded vesting method to accrue the compensation expense by which when a share-based payment award vest in installments over the vesting period (graded vesting), each installment is accounted for as a separate arrangement instead of accruing the whole compensation cost on a straight-line basis. Stock option expense incorporates an expected forfeiture rate based on historical forfeiture rates.

(m) Earnings (loss) per share: Basic earnings (loss) per common share are computed by dividing the net profit attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted earnings (loss) per share amounts reflect the potential dilution effect derived from the exercise or conversion to common shares of securities or other contracts to issue common shares. The treasury stock method is used to determine diluted per share amount which assumes that all outstanding securities or contracts to issue common shares are exercised if its average exercise price was below the market price of the underlying shares, and the assumed proceeds are used to purchase the Company’s common share at the average market price during the period.

(n) Financial Instruments: Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. All financial instruments are classified into one of these five categories: held-to-maturity investments, loans and other receivables, available-for-sale, fair value through profit and loss (“FVTPL”) or other financial liabilities. All financial instruments and derivatives are measured at fair value upon initial recognition. After initial recognition the Company measures its financial assets and financial liabilities depending on the category assigned as follows:

- FVTPL are financial assets held for trading and carried at fair value with changes in fair value charged or credited to the statement of operations in the period in which they arise.
- Loans and receivables and held-to-maturity investments are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at their fair values, and subsequently measured at amortized cost using the effective interest rate method less a provision for impairment.
- Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are carried at fair value with changes in the fair value charged or credited to other comprehensive income (loss).
- Other financial liabilities are initially measured at fair value and are subsequently measured at amortized cost using the effective interest rate method.
- All derivative financial instruments meeting certain recognition criteria are carried at fair value with changes in fair value charged or credited to income or expense in the period in which they arise.

The following is a summary of the accounting model the Company has elected to apply to each category of financial instruments:

Cash and cash equivalents and restricted cash	Loans and receivables
Accounts receivable	Loans and receivables
Trade payable and other accrued liabilities	Other financial liabilities
Financial debt	Other financial liabilities
Marketable securities	FVTPL

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset is impaired. The criteria used to determine if objective evidence of impairment exists include:

- significant financial difficulty of the obligor;
- delinquencies in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganization; and
- significant decline or prolonged loss in value

Financial assets and liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

The fair value of financial assets that are traded in active markets at each reporting date is determined by reference to quoted market prices. For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's length market transactions, reference to the current fair value of another financial instrument that is substantially the same, discounted cash flow analysis or other valuation models.

(o) Future changes to standards: The following new standards, new interpretations and amendments to standards and interpretations have been issued but are effective for financial years beginning January 1, 2018 or after and have not been early adopted. Pronouncements that are not applicable to the Company have been excluded from those described below. The Company is in the process of assessing the impact upon adoption of the following standards.

*IFRS 9 Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments bringing together the classification and measurement, impairment and hedge accounting phases of the IASB's project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. IFRS 9 also amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value through other comprehensive income (OCI), and guidance on financial liabilities and derecognition of financial instruments.

The mandatory effective date of IFRS 9 would be annual periods beginning on or after January 1, 2018, with early adoption permitted.

#### *IFRS 15 Revenue from Contracts with Customers*

In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, which covers principles that an entity shall apply to report useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2018, with earlier application permitted. The company is currently assessing the impact on its consolidated financial statements along with timing of our adoption of IFRS 15.

#### *IFRS 16 Leases.*

In January 2016, the IASB issued IFRS 16 "Leases" ("IFRS 16"). This standard is effective for annual periods beginning on or after January 1, 2019, and permits early adoption, provided IFRS 15, has been applied, or is applied at the same date as IFRS 16. IFRS 16 requires lessees to recognize assets and liabilities for most leases. The Company is in the process of determining the impact of IFRS 16 on its consolidated financial statements

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## 4. Critical accounting estimates, judgements and assumptions

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The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. By definition, estimates and assumptions seldom equal actual results and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities, and to the amounts of revenues and expenses presented in these financial statements. The areas which require management to make significant judgments, estimates and assumptions are discussed below:

**i) Economic lives of mining assets and recoverable value – Reserves:** The economic lives of the Company's mining operation and development assets are based upon the individual mine's mineral reserves. The Company's resources and reserves are calculated in accordance with mining standards and in compliance with National Instrument 43-101 Standards of disclosure for mineral projects ("NI 43-101"). The information relating to the geological data on the size, depth and shape of the ore body requires complex geological judgments to interpret the data.

The Company reviews and re-evaluates the estimated future discounted net cash flows of its mines and development properties on a regular basis, to ensure that they exceed the carrying value for each property. These calculations rely on the estimated reserves and/or resources, estimated future commodity price and production cost. An impairment loss is recognized in the consolidated statement of comprehensive profit (loss) for the amount by which the asset's carrying amount exceeds its recoverable amount. The

recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash generating units). Previously impaired non-financial assets are reviewed for possible reversal of the impairment at the end of each reporting period.

**ii) Inventory:** Expenditure incurred and depreciation of assets as a result of mining and processing activities is deferred and accumulated as the cost of ore in stockpiles, gold in circuit and finished metals inventories, on units based on estimated volumes and grades as a result of assays and other sampling tests. These deferred amounts are carried at the lower of average cost and net realizable value. Write downs of such inventories are reported as a component of current period costs and are influenced by the prevailing and long-term metal prices, prevailing costs for production inputs, realized ore grades and production schedules.

**iii) Environmental rehabilitation provisions:** The fair value of the liability is determined based on the net present value of estimated future costs estimated by management based on feasibility and engineering studies on a site by site basis. While care was taken to estimate the retirement obligations, these amounts are estimates of expenditures that are not due until future years; The Company assesses its provision on an ongoing basis or when new material information becomes available.

**iv) Stock-based compensation:** The Company uses the fair value method to account for stock-based employee compensation plans. The calculation of this benefit relies on estimates of the anticipated life of the option, risk free rate, forfeiture rate, and the volatility of the Company's share price.

**v) Deferred income tax assets and liabilities:** Significant judgment is required in determining the worldwide provision for income taxes. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences may impact the carrying amount of deferred income taxes.

**vi) Exploration and evaluation expenditure:** The recoverability of amounts shown for capitalized exploration and evaluation costs is dependent upon the discovery of economically recoverable reserves. Management reviews the carrying value of capitalized exploration and evaluation costs at least annually. The review is based on the Company's intention for development of the underlying asset

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## 5. Accounts receivable and other assets, trade payables and other accrued liabilities

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<b>(i) Accounts receivable and other assets</b>	<b>May 31, 2017</b>	May 31, 2016
	<b>(\$)</b>	(\$)
Tax receivable (a)	<b>967</b>	852
Advance payments to suppliers	<b>270</b>	363
Marketable securities	<b>8</b>	8
Miscellaneous receivable (b)	<b>274</b>	547
Total accounts receivable	<b>1,519</b>	1,770
 <u>Non-current</u>		
Miscellaneous receivable (c)	<b>550</b>	550

(a) Tax receivable consists of refunds to be collected for Uruguayan Value Added Tax and Canadian GST.

(b) Current miscellaneous receivable consists of expenses to be reimbursed by farm-out partners and suppliers and income from the Company's laboratory for work performed for outside third parties.

(c) Non-current miscellaneous receivable includes a prepayment of \$550 made to a supplier in April 2013 to start the raiseboring of the Arenal underground. The supplier was unable to provide the services. As a result, the Company initiated actions to recover the amount and a positive arbitration award was received on April 3, 2014. The supplier repudiated the award, so in July 2014, the Company filed a judicial action to execute it. As defence, the supplier filed for judicial review of the award offering as counter-guarantee equipment valued at \$600. In May 2016, the defence was dismissed and the court ordered the freezing of the supplier's bank accounts and the valuation of the equipment to sell it at auction. In March 2017, the court ordered the seizure of additional equipment in order to cover the total amount of damages and fines awarded by the arbitral tribunal.

<b>(ii) Trade payables and other accrued liabilities</b>	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Commercial suppliers	<b>10,749</b>	7,101
Salaries, labour benefits and social security contributions	<b>3,479</b>	3,202
Mining royalties, income tax and other taxes	<b>290</b>	283
<b>Total trade payables and other accrued liabilities</b>	<b>14,518</b>	10,586

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## 6. Inventories

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	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Ore in stockpiles (i)	<b>1,625</b>	1,198
Gold in circuit	<b>1,384</b>	1,607
Finished metals	<b>868</b>	150
Mine operating supplies	<b>9,280</b>	9,114
Total inventories	<b>13,157</b>	12,069

(i) Ore in stockpiles includes high and medium grade material that the Company processes within its normal operation cycle. Whether the ore in stockpiles will be used in production within the next twelve months is subject to the Company's discretion as such ore is usually blended with ore mined and transported directly to the processing plant to optimize production. The Company does not carry stockpiles to be processed in the long term. Ore in stockpiles is carried at its accumulated average production cost of \$1,625 (409 \$/oz) which is lower than its net realizable value of \$1,967 (660 \$/oz).

## 7. Property, Plant and Equipment and development costs

	Development costs						Total
	Tangible fixed assets (1)	Decommissioning asset (2)	Tangible Underground development costs (3)	Open pit development costs subject to depreciation (4)	Development costs not subject to depreciation (5)	Deferred stripping asset (6)	
<b>Cost</b>							
Balance May 31, 2015	\$ 76,394	11,707	28,025	53,056	5,293	560	175,035
Additions	\$ 1,391	241	1,125	78	1,107	-	3,942
Reclassification from E&E (7)	\$ -	-	-	-	770	-	770
Other (8)	\$ -	(822)	-	50	(50)	-	(822)
Disposals	\$ (625)	-	-	-	-	-	(625)
Balance May 31, 2016	\$ 77,160	11,126	29,150	53,184	7,120	560	178,300
Additions	\$ 3,129	213	6,053	280	1,479	-	11,154
Reclassification from E&E (7)	\$ -	-	204	1,791	103	-	2,098
Other reclassifications	-	-	3,520	107	(3,627)	-	-
Other (8)	\$ 36	(56)	-	-	-	-	(20)
Disposals	\$ (711)	-	-	-	-	-	(711)
<b>Balance May 31, 2017</b>	<b>\$ 79,614</b>	<b>11,283</b>	<b>38,927</b>	<b>55,362</b>	<b>5,075</b>	<b>560</b>	<b>190,821</b>

	Development costs						Total
	Tangible fixed assets (1)	Decommissioning asset (2)	Tangible Underground development costs (3)	Open pit development costs subject to depreciation (4)	Development costs not subject to depreciation (5)	Deferred stripping asset (6)	
<b>Accumulated depreciation</b>							
Balance May 31, 2015	\$ 70,922	9,907	21,582	52,758	2,644	560	158,373
Depreciation	\$ 2,923	311	2,335	406	-	-	5,975
Impairment of assets	\$ -	-	4,229	-	-	-	4,229
Other	\$ 64	-	-	-	-	-	64
Disposals	\$ (447)	-	-	-	-	-	(447)
Balance May 31, 2016	\$ 73,462	10,218	28,146	53,164	2,644	560	168,194
Depreciation	\$ 2,331	273	4,132	407	-	-	7,143
Disposals	\$ (676)	-	-	-	-	-	(676)
<b>Balance May 31, 2017</b>	<b>\$ 75,117</b>	<b>10,491</b>	<b>32,278</b>	<b>53,571</b>	<b>2,644</b>	<b>560</b>	<b>174,661</b>

## Carrying amount

As at May 31, 2017	\$	<b>4,497</b>	<b>792</b>	<b>6,649</b>	<b>1,791</b>	<b>2,431</b>	-	<b>16,160</b>
As at May 31, 2016	\$	3,698	908	1,004	20	4,476	-	10,106
As at May 31, 2015	\$	5,472	1,800	6,443	298	2,649	-	16,662

(1) Includes land, buildings, processing facilities, mobile and stationary equipment, furniture and other office equipment. The plant is located on leased land. The lease expires in 2026. No further payments are due on the lease.

(2) See note 10.

(3) Includes the ramp and gallery access to ore for Arenal Deeps Underground operation, ventilation shafts and other tangible development to access the ore body.

(4) Includes exploration and evaluation costs for properties under production, including resource definition work.

(5) Includes exploration and evaluation costs for properties for which commercial production has not begun.

(6) Includes pre-stripping extracted from Vaca Muerta during June 2014.

(7) Includes exploration and evaluation costs prior to the Company defining proven and probable reserves and intention to develop the property commercially.

(8) Change on estimates of the retirement obligations.

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## 8. Exploration and evaluation costs

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Exploration and evaluation costs incurred in Uruguay, Chile and in Colombia are shown below:

	Uruguay	Chile	Colombia	Total
<b>May 31, 2015</b>	<b>4,122</b>	<b>6,137</b>	<b>6,867</b>	<b>17,126</b>
Cash expenditure	1,379	1,007	407	2,793
Foreign exchange movement	-	-	(849)	(849)
Anillo transaction	-	(710)	-	(710)
Other	11	-	-	11
Transfer to depreciable assets	(770)	-	-	(770)
Written-off	(324)	(27)	-	(351)
<b>May 31, 2016</b>	<b>4,418</b>	<b>6,407</b>	<b>6,426</b>	<b>17,251</b>
Cash expenditure	1,576	318	710	2,604
Foreign exchange movement	-	-	94	94
Other	(68)	-	25	(43)
Transfer to depreciable assets	(2,098)	-	-	(2,098)
Written-off	(131)	-	-	(131)
<b>May 31, 2017</b>	<b>3,697</b>	<b>6,725</b>	<b>7,255</b>	<b>17,677</b>

**(a) Exploration farm-in agreements and acquisitions:**

**- Anillo (Chile):**

Anillo was originally optioned from Codelco to Fortune Valley Resources Inc. (Fortune Valley) in September 2009. The Company acquired the Project as part of the acquisition of Fortune Valley in January 2010. The original contract with Codelco required the Company to spend a minimum of \$3,000 and complete a Feasibility Study prior to September 2015 in order to acquire a 65% interest in the Project. Orosur renegotiated this contract with Codelco and based on the amended contract executed in November 2014, the Feasibility Study completion deadline was extended to January 2020 which may be further extended by Codelco by two years to January 2022 if the Company has a discovery and has defined a mineral resource by January 2020.

On June 6, 2015, the Company signed the definitive option agreement for the funding of the next phases of exploration with Asset Chile Exploración Minera Fondo de Inversión Privado ("Asset Chile"). The agreement defines a non-dilutive financing of up to \$3,500 to advance the exploration of Anillo and states that Asset Chile may earn up to a 40% interest in the Project.

From July 2015 to May 31, 2017, Asset Chile and Fortune Valley have invested \$970 and \$100 respectively to funding the Phase 1 of the exploration of Anillo.

In early June 2017, the Company granted Asset Chile an extension to decide whether it will proceed with Phase 2. Asset Chile now has until December 31 2017 make that decision. In exchange, Asset Chile agreed to pay care and maintenance costs of the Anillo property and the related office costs in Chile and have no objection to the Company presently entering into discussions with third parties for the purpose of farming out the Anillo property should Asset Chile decline to further participate on the expiry of the December 2017 extension. Asset Chile contributed \$85 in June 2017 toward the minimum expenditure requirement and expects to contribute another \$65 in September 2017.

Asset Chile has to complete its required contribution to Phase 2 (up to \$1,250 to fund 5,500 m of RC drilling) in order to earn into a 32.5% interest of the Company's share in Anillo. In the event that Asset Chile does not complete the Phase 2, it will forfeit their earn-in achieved to date in Anillo.

**- Pantanillo (Chile):**

In October 2009, the Company entered in an option agreement with Anglo American Norte S.A ("Anglo"), a subsidiary of Anglo American plc.

Anglo and the Company signed on May 25, 2017 in Notary Public the re-purchase of the Pantanillo properties by Anglo in line with the decision made to discontinue with the project. The Company has given the mining concessions of this project back to Anglo in June 2017.

**- Talca (Chile):**

On August 26, 2011, the Company executed agreements with Compañía Minera Demetrio Tello and other related persons to acquire 25% interest in the Talca gold property located in Chile ("Talca property") and an option to increase its interest up to 100% until August 25, 2016. The Talca assets comprise a number of mining licenses, land and land easements each held by members of the Tello group or in separate private limited companies each incorporated in Chile related to the Tello group.

During the year ended May 31, 2017, the Company conducted a property review to try to generate value from this asset. Some field work was undertaken to obtain relevant information and the property was presented to potential partners and investors.

**- Davinco, Presidente Terra project (Uruguay):**

Pursuant to an agreement dated May 14, 1997, the Company had the right to purchase shares of a Uruguayan Company named Davinco S.A. ("Davinco"), the former owner of the Presidente Terra project in Uruguay.

According to this agreement, the Company had the option to purchase 80% of the issued share capital of Davinco for the amount of \$750 payable in installments and the remaining 20% once a decision was made to develop a mining operation, at a variable price. On December 30, 2011, the Company exercised the option, completed the payments and acquired the initial 80% interest.

**(b) Farm-out agreements:**

**- Noletir (Uruguay):**

Pursuant to an agreement dated December 27, 2011, the Company has farmed out certain non-core limestone mining properties in the Treinta Tres and Cerro Largo provinces of Uruguay to a Uruguayan company, Noletir S.A. ("Noletir").

According to this agreement, the Company will grant Noletir 30% interest in certain assets and properties once Noletir has incurred in at least \$500 of exploration expenditure, including a minimum of 1,000 meters of drilling by December 31, 2015. Once Noletir earns 30% interest in the project, it will acquire the option to earn a further 30% by incurring a further \$750 exploration expenditure including an additional 1,000 meters of drilling within (1) one year from the acquisition of the initial 30% interest. Once Noletir has fulfilled its exploration obligations, it will have an option to earn a further 10% interest (therefore reaching 70%) by incurring expenditures to complete a bankable feasibility study no later than three years after acquiring the 60% interest. Once the bankable feasibility study is completed, the Company shall start contributing its 30% proportionate share of expenditures.

As at May 31, 2017, the parties were waiting for the Government's grant of new mining licenses in order to continue with the exploration campaign and on this basis.

**- Minerales Cala (Uruguay):**

In June 2010, the Company entered into an Option Agreement with Minerales Cala S.A. ("Minerales Cala") which provides Minerales Cala the right to earn up to 80% interest on the Company's Chamizo gold project in Southern Uruguay.

On November 20, 2015, Minerales Cala completed its expenditures earning the total 80% interest on the project.

In October 2016, the Company elected not to contribute to Phase 3 expenditures and its interest in the Project was reduced to a Net Smelter Return Royalty of 2%.

**- Gladiator (Uruguay):**

On July 29, 2010, Gladiator Resources Limited ("Gladiator"), a mineral exploration and development company, exercised its Option Agreement with the Company to earn up to an 80% interest in the iron ore,

manganese ore and base metal assets in the Company's tenements located in the Isla Cristalina Belt subject to the execution of a Definitive Agreement detailing the joint venture arrangements.

Gladiator has earned a 20% interest in the Isla Cristalina iron ore, manganese ore and base metal prospects in Uruguay after expending in excess of \$1,000 on these prospects.

In August 2016, Gladiator announced its intention to dispose its current interest under the Option Agreement and in September 2016, notified the Company of an offer received from a third party proposing to purchase all of its interest. Having analysed this offer, the Company has concluded that the offer is not compliant with the underlying Option Agreement and therefore cannot be accepted in its current form. In December 2016, Gladiator publicly announced that it had executed a binding agreement with a third party to dispose its interests in the Project, and in February 2017, without the Company's consent, Gladiator completed the sale of its interest in the Project to Metamila Limited, a Belize based company. The Company considers the sale a breach of contract and intends to take all steps necessary to remedy the situation.

### **(c) Impairment of exploration projects, exploration projects evaluation and resource definition work**

Management determined based on the results of drilling activity completed during the year that the carrying value of certain capitalized exploration expenditures attributed to specific projects was impaired as substantive expenditure or further exploration and evaluation activities in those areas is neither budgeted nor planned in the foreseeable future. As a result, an impairment of \$131 (2016 - \$351) was recognized as explained in Note 9.

Capitalized exploration expenditures of \$2,098 (2016 – \$770) were reclassified as development costs as they were related to areas in which a mineral resource was determined. The amounts transferred include exploration work for development of San Gregorio, Argentinita, Veta Rey, Perú and Santa Teresa.

### **(d) Exploration performance bonds**

Uruguay mining legislation requires all mining titles to be supported by guarantees to cover the cost of any environmental rehabilitation requirements resulting from exploration activities. The Company has facility agreements with local Uruguayan insurance companies and banks to support the required guarantees. The total guarantees provided at May 31, 2017 to support exploration activities on tenements granted were approximately \$584 (May 31, 2016 - \$489).

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## **9. Impairment**

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### *a) Property, Plant and equipment and development costs*

Non-current assets are tested for impairment when events or changes in circumstances suggest that the carrying amount exceeds the recoverable amount. The recoverable amount is the higher of fair value less cost of disposal ("FVLCD") and value in use ("VIU") approaches. The assessment is performed at the cash generating unit ("CGU") level, which is the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets.

There were no impairment indicators identified for the production (Uruguay) CGU for the year ended May 31, 2017. The Company has determined that the San Gregorio gold operations and minor satellite pits form the basis for the CGU of the Uruguayan operations.

A FVLCD model was used to determine the recoverable amount of the CGU utilizing discounted cash flows with market participant variables used as inputs.

For the year ended May 31, 2017, the Company completed an assessment of the carrying value of its CGUs and no impairment charge was recorded at May 31, 2017 (May 31, 2016 - \$4,229) for property, plant and equipment and development costs.

*Key assumptions*

The key assumptions used in determining the recoverable amount (fair value less costs of disposal) for the CGU are long-term commodity prices, discount rates, cash costs of production, capital expenditures, foreign exchange rates and net asset value multiples.

To determine the recoverable amount of the production (Uruguay) CGU, management used discount rates between 7% and 8% for various assets of the CGU and gold prices between US\$1,150 and US\$1,300 per ounce. As at May 31, 2017, the recoverable amount of the CGU exceeds its carrying amount.

In addition to the impairment testing performed by the Company at May 31, 2017, the Company also undertook a sensitivity analysis to identify the impact of changes in long-term pricing. The Company believes that a 10% change in the gold price assumption will not have an impact on the estimated recoverable amount of its production (Uruguay) CGU's carrying amount.

*b) Exploration and evaluation costs*

Management determined that based on the results of drilling activity completed during the year, the carrying value of certain capitalized exploration expenditures attributed to specific projects was impaired as substantive expenditures or further exploration and evaluation activities in those areas were neither budgeted nor planned in the foreseeable future.

	Uruguay	Chile	Colombia	Total
Impairment of exploration and evaluation costs at May 31, 2017	131	-	-	131
Impairment of exploration and evaluation costs at May 31, 2016	324	27	-	351

For the year ended May 31, 2017, the Company recorded an impairment charge of \$131 (May 31, 2016 – \$351) related to explorations projects in Uruguay.

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**10. Environmental rehabilitation provision**

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The Company's environmental rehabilitation provision relates to the retirement and remediation of the San Gregorio Operation in Uruguay.

The environmental rehabilitation obligations have been recorded as a liability at estimated fair value determined by calculating the net present value of estimated future costs, assuming a risk free bond rate of 2.11% (2016 – 1.748%) and an inflation factor of 1.191% (2016 – 1.235%).

The following table summarizes the movements in the environmental rehabilitation provision for the years ended May 31, 2017 and 2016.

	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Balance at beginning of year	<b>5,687</b>	6,718
Changes in cash flow estimates/new obligations	<b>156</b>	(580)
Expenditure incurred in rehabilitation	<b>(213)</b>	(241)
Accretion expense	<b>18</b>	(210)
Balance at end of year	<b>5,648</b>	5,687
Current portion	<b>(243)</b>	(360)

The Company has a legal and constructive obligation to restore the San Gregorio operation when mining operations cease. This estimate is revised annually according to a mine plan. The Company advances rehabilitation work previous to the closure date at its discretion and in accordance with the Uruguayan Environmental Agency.

Management's estimates of future cash flows were revised during the year and as a result, an amount of \$156 has been added to (2016 - \$580 deducted from) the environmental rehabilitation provision. The estimated increase is mainly due to the environmental obligation to close the new tailings facility recently constructed, to the revision of the estimated cost for the closure of the remaining cells of the old tailings dam facilities based on the experience provided by the work performed during the period, and additional expenses related to post-closure monitoring activities. The liability for the environmental rehabilitation on an undiscounted basis is estimated to be approximately \$5,836 (2016- \$ 5,771).

Uruguayan mining and environmental legislation requires environmental obligations to be supported by guarantees. As a result, a rehabilitation guarantee letter of credit of \$1,300 (2016 - \$1,300) has been provided by Santander Bank (Uruguay) and an environmental guarantee for \$5,000 (2016 – \$5,000) has been provided by AIG, a local Uruguayan insurance company.

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## 11. Capital stock

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The Company has an authorized capital of unlimited number of common shares of no par value. As of May 31, 2017, the Company has a total of 100,846,403 issued shares outstanding (May 31, 2016 – 98,865,201). Movements in capital for the year are shown hereinafter:

	Number of shares (000's)	(\$)
Balance as of May 31, 2015	96,635	60,544
Termination consideration	2,104	195
Compensation	126	12
Balance as of May 31, 2016	98,865	60,751
Compensation (i)	196	34
Exercise of stock options (ii)	1,443	308
Exercise of stock options (iii)	342	69
Balance as of May 31, 2017	100,846	61,162

- (i) The Company granted 83,777 common shares on June 1, 2016, 54,480 common shares on August 31, 2016 and 57,946 common shares on November 30, 2016, to directors and officers in lieu of 20% of their standard cash compensation for the period March 1, 2016 to May 31, 2016, June 1, 2016 to August 31, 2016 and September 1, 2016 to November 30, 2016 respectively.
- (ii) On August 24, 2016, October 31, 2016 and February 3, 2017, the Company issued 610,000, 280,000 and 553,332 common shares respectively, following the exercise of options by a number of its employees.
- (iii) On January 19, 2017, the Company issued 341,667 common shares following the exercise of options by a former Director.

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## 12. Stock-based compensation

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### Stock options

The Company has an option plan (the "Plan") for the officers, directors, employees and consultants of the Company and its subsidiaries. Options under the plan are typically granted in such numbers which reflect the responsibility of the particular optionee and his or her contribution to the business and activities of the Company. Options granted under the Plan have a term between 5 to 10 years. Except in specified circumstances, options are not assignable and terminate on the optionee ceasing to be employed by or associated with the Company. The terms of the Plan further provide that the price at which shares may be issued under the Plan cannot be less than the market price (net of permissible discounts) of the shares when the relevant options were granted. One-third of options vest on the grant date, one-third of options vest twelve months from grant date and the final one-third vest twenty four months from grant date. The following table summarizes information regarding the Company's outstanding options at May 31, 2017:

	Number of Shares	Option Price per Share Range	Weighted Average Exercise Price
	(000s)	CDN \$	CDN \$
Balance at May 31, 2015	<b>6,319</b>	<b>\$0.185 - \$1.20</b>	<b>\$0.25</b>
Expired	(907)	\$0.185 - \$1.20	\$0.51
Forfeited	(630)	\$0.105 - \$0.23	\$0.18
Granted	2,920	\$0.105	\$0.105
Granted	194	\$0.13	\$0.13
Cancelled	(220)	\$0.105 - \$0.185	\$0.14
Balance at May 31, 2016	<b>7,676</b>	<b>\$0.105 - \$0.267</b>	<b>\$0.17</b>
Expired	(663)	\$0.105 - \$0.267	\$0.25
Forfeited	(383)	\$0.105 - \$0.235	\$0.14
Granted (i)	434	\$0.18 - \$0.28	\$0.23
Granted (ii)	1,960	\$0.235	\$0.235
Exercised (iii)	(1,443)	\$0.105 - \$0.235	\$0.13
Exercised (iv)	(342)	\$0.105 - \$0.185	\$0.18
Cancelled (v)	(17)	\$0.105 - \$0.235	\$0.21
Balance at May 31, 2017	<b>7,222</b>	<b>\$0.105 - \$0.28</b>	<b>\$0.19</b>

- (i) On June 1, 2016, August 30, 2016 and November 30, 2016, 128,679, 83,680 and 221,186 stock options were granted respectively, to directors and officers in lieu of 20% of their standard cash compensation for the respective periods commencing March 1, 2016 to May 31, 2016, June 1, 2016 to August 31, 2016 and September 1, 2016 to November 30, 2016, equivalent to an aggregate cash amount of \$18, \$18 and \$39 respectively. All options are fully vested and are exercisable at a price of Cdn\$0.18, Cdn\$0.28 and Cdn\$0.235 per common share, on or before June 1, 2021, September 1, 2021 and November 30, 2021, respectively. Pricing was determined by calculating the volume weighted average closing price of Orosur's shares on the Toronto Stock Exchange over the periods. A total of \$15 of stock based compensation expense was recorded.
- (ii) On November 30, 2016, 1,960,000 stock options were granted to directors, officers and employees and a corresponding \$32 of stock based compensation expense was recorded. The fair value was determined based on the Black-Scholes option pricing model using the following assumptions: strike price – CDN\$ 0.235; risk free interest rate – 0.56%; expected daily volatility – 100.06%; expected life – 5 years; forfeiture rate – 10% and expected dividends - \$nil.
- (iii) On August 24, 2016 and October 31, 2016 and February 3, 2017, the Company issued 610,000, 280,000 and 553,332 common shares respectively, following the exercise of options by a number of its employees (820,000 at an exercise price of Cdn\$0.105, 600,000 at Cdn\$0.185 and 23,332 at Cdn\$0.235).
- (iv) On January 19, 2017, the Company issued 341,667 common shares following the exercise of options by a former Director (41,667 at an exercise price of Cdn\$0.105 and 300,000 at Cdn\$0.185).
- (v) On April 24, 2017, 16,667 options were cancelled by a “cashless” exercise of options by certain employees.

Range of option Price CDN \$	Outstanding			Exercisable	
	Options 000s	Weighted average Exercise Price CDN \$	Weighted average remaining contractual life Years	Options 000s	Weighted average Exercise Price CDN \$
0.00 – 0.12	1,534	0.105	3.64	732	0.105
0.13 – 0.20	2,333	0.180	1.97	2,333	0.180
0.21 – 0.25	3,271	0.233	4.25	1,985	0.233
0.26 – 0.30	84	0.280	4.26	84	0.280
	7,222	0.19	3.38	5,134	0.19

At May 31, 2017, there were 7,222,426 options outstanding of which 5,134,092 are exercisable (May 31, 2016 – 7,676,380 and 4,793,047, respectively). The weighted average exercise price of the options outstanding at May 31, 2017 is CDN\$0.19 (May 31, 2016, CDN\$ 0.17).

During the year ended May 31, 2017, \$93 (2016 – \$43) of stock-based compensation expense was recorded.

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### 13. Related parties and remuneration of key management

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**(a) Subsidiaries:** The consolidated financial statements include the financial statements of Orosur Mining Inc. (Parent) and the following subsidiaries:

Name of subsidiary	Country of incorporation	Equity interest 2017	Equity interest 2016	Functional Currency
International Mining Holdings Limited (IMHL)	Barbados	100%	100%	US dollar
Loryser S.A	Uruguay	100%	100%	US dollar
Minera San Gregorio S.A.	Uruguay	100%	100%	US dollar
Cinco Ríos S.A	Uruguay	100%	100%	US dollar
Nafypel S.A.	Uruguay	100%	100%	US dollar
Triselco S.A.	Uruguay	100%	100%	US dollar
Kevelux S.A	Uruguay	100%	100%	US dollar
Glendora S.A.	Uruguay	100%	100%	US dollar
Dalván S.A	Uruguay	100%	100%	US dollar
Bolir S.A.	Uruguay	100%	100%	US dollar
Brimol S.A.	Uruguay	100%	100%	US dollar
Montemura S.A.	Uruguay	100%	100%	US dollar
Ugdev S.A.	Uruguay	100%	100%	US dollar
Fortune Valley Resources Inc.	Canada	100%	100%	US dollar
Fortune Valley Resources Inc. BVI	BVI	100%	100%	US dollar
Fortune Valley Resources Chile S.A	Chile	100%	100%	US dollar
Waymar Resources Ltd.	Canada	100%	100%	Canadian dollar
Cordillera Holdings International Ltd BVI	BVI	100%	100%	Canadian dollar
Minera Anzá S.A (BVI)	BVI	100%	100%	Canadian dollar
Minera Anzá S.A. (Colombia branch)	Colombia	100%	100%	Colombian peso
Anillo SPA	Chile	82%	84%	US dollar

All intercompany transactions and balances are eliminated on consolidation.

#### **(b) Compensation of key management personnel**

Key management personnel are those having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly. Key management personnel include the members of the Board of Directors of the Company (executive and non-executive) and the following key executives: Chief Executive Officer, Chief Financial Officer, VP New Business Development and Chief Operating Officer. The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends. The Chief Executive Officer and the Chief Operating Officer are also directors of the Company but does not receive any compensation as director.

The compensation paid or payable to key management was as follows:

	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Salaries and other short-term employee benefits	<u>1,187</u>	1,387
Directors' fees	148	163
Share options	<u>24</u>	32
Total	<u>1,359</u>	1,582

Directors and key executives are also granted stock options to acquire the Company's shares. During the year ended May 31, 2017, 392,881 options were granted to directors (2016 – 700,000) and 949,544 stock options were granted to executive officers (2016 – 750,000). During the year ended May 31, 2017, no stock options were exercised by directors (2016 – nil) and no stock options were exercised by executive officers (May 31, 2016 – nil). The Company's weighted average share price for the options granted to key management for the year ended May 31, 2017 was CDN\$0.23 (May 31, 2016 – CDN\$0.105).

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#### 14. Income Taxes

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(a) Current and deferred income tax composition:

	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Current income tax expense for the year	<u>(24)</u>	(35)
Deferred income tax recovery	581	1,983
Total income tax recovery	<u>557</u>	1,948

Current tax expense for the year corresponds to the mandatory minimum income tax required to be paid by legal entities despite the fiscal losses calculated for the year.

(b) Changes in the deferred tax asset:

	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Balance beginning of year	<u>2,534</u>	551
Recognized deferred tax recovery	581	1,983
Balance end of year	<u>3,115</u>	2,534

	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Property plant and equipment and development costs	1,375	734
Inventories	(1)	(1)
Exploration and evaluation costs	(189)	(267)
Labor provisions	43	301
Fiscal losses	<u>1,887</u>	1,767
Deferred income tax asset	<u>3,115</u>	2,534

Changes in the value of the deferred income tax asset have been recognized in the statement of income. The deferred tax asset represents future tax deductions in Uruguay. The Company has no deferred tax asset in any other jurisdiction in which it operates.

The property, plant and equipment, development costs and exploration and evaluation costs tax assets represent future income tax deductions denominated in Uruguayan pesos that are subject to the appreciation or devaluation of the Uruguayan peso against the United States dollar. Fixed assets are also adjusted in Uruguay for tax purposes based on local inflation rate. Additionally, the value of the stockpile carried forward is, for tax purposes, fixed in Uruguayan pesos at the time the stocks are being incorporated.

Labor expenses will be deductible for income tax purposes at the time the labor claims or dismissal compensations are paid.

The Company has recognized \$3,115 of deferred tax assets in respect of Uruguayan deductible temporary differences as projections of various sources of income support the conclusion that the realizability of these deferred tax assets is probable.

(c) Unrecognized tax benefits

At May 31, 2017, the Company had non-capital loss carry forwards of \$60,216 (May 31, 2016 - \$60,977). The losses at gross value by tax jurisdictions expire as shown in the following table:

Expiry date	Barbados (\$)	Canada (\$)	Chile (\$)	Colombia (\$)	Total (\$)
May 2018	1,072	-	-	-	1,072
May 2019	1,421	-	-	-	1,421
May 2020	944	-	-	-	944
May 2021	846	-	-	-	846
May 2022	1,521	-	-	-	1,521
May 2023	1,429	-	-	-	1,429
May 2024	219	-	-	-	219
May 2025	337	-	-	-	337
May 2026 to May 2036	167	12,124	-	-	12,291
No expiration term	-	-	40,136	-	40,136
<b>Total</b>	<b>7,956</b>	<b>12,124</b>	<b>40,136</b>	<b>-</b>	<b>60,216</b>

Deferred tax assets on the detailed tax loss carry forwards are not recognized because it is not probable there will be sufficient future taxable income generated by the subsidiaries where the losses are allocated.

(d) The provision for income tax differs from the weighted average statutory tax rates as follows:

	May 31, 2017 (\$)	May 31, 2016 (\$)
<b>Profit/(Loss) before taxes</b>	<b>2,028</b>	(3,158)
Income tax rate (i)	30%	30%
<b>Expected income tax (expense)/recovery</b>	<b>(608)</b>	947
<i>Tax effect of:</i>		
Effect of lower jurisdictions tax rates (i)	(70)	(85)
Fiscal inflation adjustment	-	-

Tax losses for the year not recognized (ii)	(361)	(448)
Foreign exchange rate	(68)	1,028
Recognition of previously unrecognized temporary differences	1,664	1,983
Other temporary differences not recognized	-	(1,477)
<b>Income tax recovery for the year</b>	<b>557</b>	<b>1,948</b>

(i) The statutory tax rate used is the federal income tax rate of Canada and provincial tax rate of the British Columbia; the main taxable jurisdiction is Uruguay with a statutory 25% income tax rate.

(ii) Includes fiscal losses for the year in Barbados, Chile, Colombia and Canada for which a deferred tax asset is not recognized.

## 15. Segmented Information

As noted in note 3(g), the Company identifies three operating segments, namely production segment, exploration segment and corporate segment, that management reviews regularly in order to evaluate their performance and make decisions about resources to be allocated.

	Production (UY)	Exploration (UY)	Exploration (CH)	Exploration (Colombia)	Corporate	Total
<b>For the year ended May 31, 2017</b>						
Sales	44,226	-	-	-	-	44,226
Cost of sales	(40,271)	-	-	-	-	(40,271)
Exploration and evaluation costs written off	-	(131)	-	-	-	(131)
Obsolescence provision	(113)	-	-	-	-	(113)
Restructuring costs	143	-	-	-	-	143
Impairment of assets	-	-	-	-	-	-
Corporate costs	-	-	-	-	(2,398)	(2,398)
Other income (i)	1,463	-	-	64	-	1,527
Total segment income (loss)	5,448	(131)	-	64	(2,398)	2,983
Investment in exploration and evaluation	-	1,576	318	710	-	2,604
Investment in PP&E and development costs	10,944	-	(3)	-	-	10,941
<b>As at May 31, 2017</b>						
Property, plant and equipment and development costs	16,095	7	-	49	9	16,160
Exploration and evaluation costs	-	3,697	6,725	7,255	-	17,677
Total assets	38,022	3,704	6,725	7,304	9	55,764

i) Other income is comprised mainly of the sale of crushed rock and income from the Company's laboratory for work performed for outside third-party companies.

	Production (UY)	Exploration (UY)	Exploration (CH)	Exploration (Colombia)	Corporate	Total
<b>For the year ended May 31, 2016</b>						
Sales	42,866	-	-	-	-	42,866
Cost of sales	(42,073)	-	-	-	-	(42,073)
Exploration and evaluation costs written off	-	(324)	(27)	-	-	(351)
Obsolescence provision	(39)	-	-	-	-	(39)
Restructuring costs	(1,709)	-	-	-	-	(1,709)
Impairment of assets	(4,229)	-	-	-	-	(4,229)
Corporate costs	-	-	-	-	(2,150)	(2,150)
Other income	3,957	-	-	52	-	4,009
Total segment income (loss)	(1,227)	(324)	(27)	52	(2,150)	(3,676)
Investment in exploration and evaluation	-	1,379	1,007	407	-	2,793
Investment in PP&E and development costs	3,703	-	(2)	-	-	3,701
<b>As at May 31, 2016</b>						
Property, plant and equipment and development costs	7,713	1,055	761	12	565	10,106
Exploration and evaluation costs	-	4,418	6,407	6,425	-	17,250
Total assets	23,702	5,473	7,168	6,437	6,040	48,820

Reconciliation of segment profit/(loss) to net profit/(loss) for the year is as follows:

	May 31, 2017 (\$)	May 31, 2016 (\$)
Segment profit/(loss)	2,983	(3,676)
Net finance cost	(164)	24
Derivative gain/(loss)	(458)	158
Net foreign exchange gain/(loss)	(333)	336
Foreign exchange differences on translating foreign operations	93	(727)
Income and deferred tax	557	1,948
Total comprehensive income (loss) for the period	2,678	(1,937)

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## 16. Financial Instruments

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Details of the significant accounting policies and methods adopted (including the criteria for recognition, measurement and the bases for the recognition of income and expenses) for each class of financial asset and financial liability are disclosed in Note 3(n).

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments which are measured at fair value by valuation technique:

**Level 1:** Quoted (unadjusted) prices in active markets for identical assets or liabilities.

**Level 2:** Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

**Level 3:** Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Financial assets and financial liabilities are initially recognized at fair value; subsequent measurement is dependent on the applicable classification. The Group has classified loans and receivables at amortized cost, which approximates fair value. The Group has classified accounts payable and accrued liabilities as other financial liabilities. The carrying amounts of accounts payable and accrued liabilities approximate the fair values of those financial instruments, due to the short-term maturity of such instruments.

All financial instruments are classified as Level 1, with the exception of financial debt, which is classified as Level 2.

The carrying value, which is approximate to fair value) of the financial assets and financial liabilities as at May 31, 2017 and May 31, 2016 were as follows:

<b>As at May 31, 2017 (\$)</b>	<b>Loans and receivables</b>	<b>FVTPL</b>	<b>Other financial liabilities</b>	<b>Total</b>
Cash and cash equivalents	3,357	-	-	3,357
Accounts receivable and other assets	2,061	8	-	2,069
Restricted cash	229	-	-	229
Trade payables and other accrued liabilities	-	-	14,518	14,518
<b>Total</b>	<b>5,647</b>	<b>8</b>	<b>14,518</b>	<b>20,173</b>

  

<b>As at May 31, 2016 (\$)</b>	<b>Loans and receivables</b>	<b>FVTPL</b>	<b>Other financial liabilities</b>	<b>Total</b>
Cash and cash equivalents	4,320	-	-	4,320
Accounts receivable	2,312	8	-	2,320
Restricted cash	221	-	-	221
Trade payables and other accrued liabilities	-	-	10,586	10,586
<b>Total</b>	<b>6,853</b>	<b>8</b>	<b>10,586</b>	<b>17,447</b>

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## 17. Financial risk management and capital management

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### Financial risks

The Company's activity exposes it to a variety of financial risks as stated below.

(i) Commodity price risk: Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors gold price and discretionarily uses financial derivatives to mitigate the risk of gold price fluctuations.

During the year ended May 31, 2016, the Company committed to a forward contract for up 6,000 ounces for a maximum period of 3 months. The Company recognized a loss of \$458 upon settlement of the forward contract during the year ended May 31, 2017 (May 31, 2016 – gain of \$158). At May 31, 2017, there were no forward contracts outstanding.

The table below summarizes a sensitivity analysis based on the assumption that the average gold and silver market price for the current year changes by ten per cent with all other variables held constant. The impact is expressed in terms of the resulting change in the net profit after tax and net equity.

Commodity	Effect on net profit		Effect on equity	
	May 31, 2017	May 31, 2016	May 31, 2017	May 31, 2016
	\$	\$	\$	\$
10% increase gold price	4,372	4,244	4,372	4,244
10% increase silver price	51	43	51	43
10% decrease gold price	(4,372)	(4,244)	(4,372)	(4,244)
10% decrease silver price	(51)	(43)	(51)	(43)

(ii) Foreign currency risk: Foreign currency risk arises from future commercial transactions and recognized assets and liabilities denominated in a currency that is not the entity's functional currency. All of the Company's entities have the United States dollar as the functional currency, except for Waymar Resources Ltd., Cordillera Holdings International Ltd. and Minera Anzá S.A., which functional currency is the Canadian dollar and Minera Anzá S.A. (Colombia branch), which functional currency is the Colombian peso. The Company conducts some of its operating and investing activities in currencies other than the US dollar, especially in Uruguayan pesos, as its only productive asset is located in Uruguay. The Company also has active exploration programs in Chile and Colombia and has some of its expenditure denominated in Chilean pesos and Colombian pesos respectively. The Company is therefore subject to gains or losses due to fluctuations in the Uruguayan pesos (mainly) and the Chilean and Colombian peso relative to the US dollar. The Company manages its currency rate risk by denominating its contracts and commitments, where possible, in US dollars. The Company does not have a policy nor has entered into derivatives to mitigate foreign currency risks.

During the current financial year, the Uruguayan peso (UY\$) appreciated by 9% (2016 – 13% depreciation) against the US dollar. Exchange rate as of May 31, 2017 was UY\$ 28.292 per 1 US dollar (May 31, 2016 – UY\$30.788). The Company has in its Uruguayan operation three main operating expenses denominated in Uruguayan pesos: salaries, electricity and gas oil.

(iii) Credit risk: Credit risk is the risk that a third party might fail to fulfill its performance obligations under the terms of a financial instrument. The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivable. The Company has no significant concentration of credit risk (except for the situation described in Note 5(c)). The Company's cash and cash equivalents credit risk is mitigated

by using well capitalized financial institutions. The Company's cash is held primarily with subsidiaries of well-known financial institutions in Chile, Colombia and Uruguay. Accounts receivables credit risk is mitigated by ensuring proper guarantees. Accounts receivable include receivables from unrelated parties from loans granted secured in a debenture, and disposition of assets receivable secured with a pledge on the delivered equipment.

(iv) Liquidity risk: Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as maintenance of liquidity. The Company manages liquidity risk by proactively forecasting its liquidity requirements with available funds and anticipated cash flows, by maintaining adequate reserves and banking facilities and by matching the maturity profiles of financial assets and liabilities. However, the Company maintains a strong investment and exploration program to extend its mine life. The Company is therefore interested in maintaining that program, but a significant proportion of it is discretionary, which provides more flexibility than in previous years. The Company is utilizing its cash flow from San Gregorio underground and open pit operations to fund its exploration programs this year.

As of May 31, 2017, the Company had cash and cash equivalents of \$3,357 (2016 - \$4,320) and total current assets of \$18,033 (2016 - \$18,159) to settle current trade and other accrued liabilities of \$14,518 (2016 - \$10,586) and current financial debt of \$202 (2016 - \$253). Given the nature of the Company, operating results are inherently related to movements in the gold price and the ability to manage cash cost of production. A significant decline in the price of gold or increase in operating or capital costs could have a significant negative impact on the cash flows of the Company should forecasted sales and operating costs be significantly different, the Company could be required to seek additional sources of funding. The Company has fully repaid the loan it had with Santander Bank (to finance the mobile fleet) and intends to continue with the plan to repay its minor Santander loans as per the agreements and to settle its obligations towards the future with cash out of its operating activities. The Company has \$ 1.5 million of committed lines of credit with Banco Santander available at May 31, 2017.

The Company's detail of financial debt maturity is as detailed below:

	Total	Less than 1 Year	1-2 Years	2-3 years
Banco Santander loan	403	202	201	-
<b>Total</b>	<b>403</b>	<b>202</b>	<b>201</b>	<b>-</b>

(v) Interest rate risk: Interest rate risk is the impact that changes in interest rates could have on the Company's earnings and liabilities. The Company has cash balances bearing minimal interest and interest-bearing debt. As at May 31, 2017, the Company's long-term debt is LIBOR based.

### Capital Management

Our capital management objectives are to safeguard the Company's ability to support our operating requirements on an ongoing basis, continue the development and exploration of the Company's mineral properties and support expansionary plans while attempting to maximize the return to shareholders through enhancing the share value. The Company defines capital that it manages as net worth, which is comprised of total shareholders' equity and debt obligations (net of cash and cash equivalents).

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by, upon approval of its Board of Directors, issuing new shares, adjusting capital spending, drawing on existing credit facilities, disposing of assets or undertaking other activities as deemed appropriate under the specific circumstances. The Company can also control, upon approval of

the Board of Directors, how much capital is returned to shareholders through dividends and share repurchase. The Board of Directors reviews and approves any material transactions out of the ordinary course of business, including proposals on acquisitions or other major investments or divestitures, as well as capital and operating budgets.

The Company does not have a numeric target for its capital structure. The capital structure is reviewed by management and the Board of Directors on an ongoing basis. The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating expenditures and other investing and financing activities. Selected information is frequently provided to the Board of Directors of the Company.

The Company has not made any changes to its capital management processes during the year.

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## 18. Cash flow – Additional information

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Cash comprises cash at bank and on hand.

Cash flow from operating activities includes interest and income tax cash payments as detailed below:

	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Income tax paid	<u>4</u>	3
Interest paid	<b>70</b>	70

The Company is reimbursed for Uruguayan VAT included in the purchase of goods and services through the issue of tax credit certificates. Income tax paid shown is net of the application of such tax credits to the income tax obligations.

Purchase of property, plant and equipment and development costs and environmental tasks is detailed below:

	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Tangible fixed assets as defined in Note 7	<u>2,809</u>	1,391
Mine development costs	<b>7,812</b>	2,310
Environmental rehabilitation as in Note 10	<u>213</u>	241
Total invested	<b>10,834</b>	3,942

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## 19. Basic and diluted earnings/(loss) per share

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Basic (loss)/earnings per share are calculated by dividing the (loss)/profit of the Company by the weighted average number of ordinary shares outstanding during the year. Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding during the year to assume conversion of all dilutive potential ordinary shares. A calculation is done to determine the number

of shares that could have been acquired at fair value (determined at the average market share price of the Company's share for the corresponding period) based on the monetary value of all dilutive share options to acquire shares of the Company. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options to determine diluted earnings per share (treasury stock method). Details of such calculations are as follows:

(a) **Basic:**

		<u>2017</u>	<u>2016</u>
Basic weighted average shares outstanding	number	<b>100,049,902</b>	97,543,260
Net profit(loss) attributable to equity holders	\$	<b>2,584</b>	(1,210)
Basic profit/(loss) per share	US cents per share	<b>0.03</b>	(0.01)

(b) **Diluted:**

		<u>2017</u>	<u>2016</u>
Potential net incremental of dilutive shares	number	<b>4,537,954</b>	1,123,077
Potential proceeds from dilutive share options	\$000	<b>584</b>	118
Average quoted market share price for the period	CDN \$ per share	<b>0.26</b>	0.14
Diluted weighted average shares outstanding	number	<b>102,373,676</b>	97,831,483
Net profit attributable to equity holders	\$000	<b>2,584</b>	(1,210)
Diluted profit (loss) per share	US dollars per share	<b>0.03</b>	(0.01)

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**20. Debt**

	<u>May 31, 2017 (\$)</u>	<u>May 31, 2016 (\$)</u>
Santander loan <i>(i)</i>	<b>403</b>	352
	<b>403</b>	352
Less current portion	<b>(202)</b>	(253)
Non-current portion	<b>201</b>	99

*(i)* During the quarter ended February 28, 2015, the Company acquired two Volvo trucks that were financed with a lease credit facility with Banco Santander (Uruguay) S.A. for a total amount of \$378. During the quarter ended May 31, 2017, the Company acquired two more Volvo trucks that were financed with a lease credit facility with Banco Santander for a total amount of \$320. The Company is following the contracted schedule of these lease repayments and has paid \$270 during the period.

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## 21. Finance income and finance cost

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<b>Finance income</b>	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Interest on bank deposits	<u>3</u>	3
Finance income	<u>3</u>	3
<b>Finance costs</b>	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Environmental rehabilitation accretion	<u>18</u>	(210)
Interest expense on bank borrowings	<u>149</u>	189
	<u>167</u>	(21)
<b>Net finance (cost) income</b>	<u>(164)</u>	24
<b>Derivative gain/(loss) (Note 17)</b>	<u>(458)</u>	158

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## 22. Cost of sales

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The Company's costs of sales are comprised of the following:

	<b>May 31, 2017 (\$)</b>	May 31, 2016 (\$)
Mining and transportation costs	<u>17,339</u>	18,281
Processing costs	<u>10,506</u>	10,246
Mine site administration costs	<u>3,136</u>	3,055
Legal costs (i)	<u>679</u>	1,287
Change in stockpiles, gold in circuit and finished goods	<u>(921)</u>	2,206
Refinery charges	<u>490</u>	518
Depreciation	<u>7,143</u>	5,975
Mining royalties and other production tax (ii)	<u>1,899</u>	505
Total cost of sales	<u>40,271</u>	42,073

- (i) Reflects an additional contingency recognized following some labor claims.
- (ii) Mining royalties and other production tax for the year reflects a royalty payment exemption and a capital tax reassessment. On December 4, 2015, the President of Uruguay granted Orosur an exemption on the royalty payment to the Government (3% of sales) covering the period from April 2015 to March 2016. During the year ended May 31, 2016, the Company recorded an adjustment of capital tax according to the reassessment of previous years due to the expansion of the investment project of Arenal.

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### **23. Subsequent event**

On August 11, 2017, the Company announced the raising of gross proceeds of approximately C\$4,000 (\$3,200) through a placing and subscription of 16,740,502 new common shares of no par value at a price of C\$0.241 per subscription share, together with a grant of unlisted warrants over new common shares on the basis of one subscription warrant for every two subscription shares. The net proceeds of this subscription are intended to be deployed for drilling and associated activities at the Company's highly prospective Anzá gold project in Colombia.