

Orosur Mining Inc.
Consolidated Financial Statements
For the years ended May 31, 2018 and 2017

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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, 2018

**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, 2018 and May 31, 2017 and the consolidated statements of profit/(loss) and comprehensive profit/(loss), cash flows, and changes in shareholders' equity 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, 2018 and May 31, 2017 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Orosur Mining Inc.'s ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants, Licensed Public Accountants

Toronto, Ontario
August 29, 2018

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

		As at May 31 2018(\$)	As at May 31 2017(\$)
Assets	Note		
Cash		1,390	3,357
Accounts receivable and other assets	6	1,550	1,519
Inventories	7	6,100	13,157
Asset held for sale	5	120	-
Total current assets		9,160	18,033
Accounts receivable and other assets	6	73	550
Property plant and equipment and development costs	8	6,578	16,160
Exploration and evaluation costs	9	9,755	17,677
Deferred income tax assets	16	-	3,115
Restricted cash		201	229
Total non-current assets		16,607	37,731
Total Assets		25,767	55,764
Liabilities and Shareholders' Equity			
Trade payables and other accrued liabilities	6	17,845	14,518
Current portion of long-term debt	22	1,730	202
Warrants	12	68	-
Environmental rehabilitation provision	11	139	243
Total current liabilities		19,782	14,963
Long-term debt	22	211	201
Environmental rehabilitation provision	11	5,283	5,405
Total non-current liabilities		5,494	5,606
Total liabilities		25,276	20,569
Capital stock	12	63,290	61,162
Contributed surplus		5,893	5,836
Deficit		(67,780)	(30,913)
Currency translation reserve		(912)	(890)
Total shareholders' equity		491	35,195
Total liabilities and shareholders' equity		25,767	55,764

Going concern assumption (Note 2)

Subsequent event (Note 25)

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)

For the years ended May 31	Note	2018 (\$)	2017 (\$)
Sales		37,100	44,226
Cost of sales	24	(38,170)	(40,271)
Gross profit/(loss)		(1,070)	3,955
Corporate and administrative expenses	14	(2,231)	(2,037)
Restructuring costs	17	(2,840)	143
Exploration expenses		(207)	-
Exploration and evaluation costs written off	9	(5,999)	(131)
Impairment of assets	10	(11,083)	-
Inventory write-downs	7	(1,161)	-
Obsolescence provision	7	(4,678)	(113)
Other income	17	995	1,525
Finance cost net	23	(177)	(164)
Gain/(loss) on fair value of financial instruments, net	12,23	680	(458)
Foreign exchange gain/(loss)		591	(383)
Profit/(loss) before income tax		(26,110)	(1,618)
Recovery (expense) for income taxes	16	(3,121)	557
Total profit/(loss) for continuing operations		(30,301)	2,894
Other comprehensive profit/(loss)			
Cumulative translation adjustment		(22)	93
Total comprehensive profit/(loss) from continuing operations		(30,323)	2,988
Loss from discontinued operations	5	(6,544)	(310)
Total comprehensive loss from discontinued operations		(6,544)	2,678
Total comprehensive (loss)/ profit for the year		(36,867)	2,678
Basic and diluted net profit/(loss) per share			
Continuing operations		(0.26)	0.03
Discontinued operations	21	(0.06)	(0.00)

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

For the years ended May 31	Note	2018 (\$)	2017 (\$)
Net inflow (outflow) of cash related to the following activities			
Cash flow from operating activities			
Net profit/(loss) for the year		(36,845)	2,585
<i>Adjustments to reconcile net income to net cash provided from operating activities:</i>			
Depreciation	8	8,901	7,143
Impairment of assets	8	11,083	-
Inventory write-downs	7	1,161	-
Exploration and evaluation costs written off	9	5,999	131
Loss from discontinued operations	5	6,544	310
Obsolescence provision	7(ii)	4,678	113
Fair value of derivatives		(399)	458
Accretion of asset retirement obligation	11	(10)	18
Deferred income tax assets	16(b)	3,115	(581)
Stock based compensation	13	57	93
Loss/(gain) on sale of property, plant and equipment		(828)	(241)
Other		(95)	(55)
Subtotal		3,361	9,664
<i>Changes in working capital</i>			
Accounts receivable and other assets		112	(211)
Inventories		1,217	(1,200)
Trade payables and other accrued liabilities		3,146	3,932
Net cash generated from operating activities		7,836	12,185
Cash flow from investing activities			
Purchase of property, plant and equipment and development costs	8,20	(9,712)	(10,621)
Payments for environmental rehabilitation	11	(122)	(213)
Proceeds from the sale of fixed assets		782	240
Exploration and evaluation expenditure assets	9	(5,183)	(2,604)
Net cash used in investing activities		(14,235)	(13,198)
Cash flow from financing activities			
Proceeds from private placement, net of issuance costs	12	2,894	-
Loan proceeds	22	1,740	320
Loan payments	22	(202)	(270)
Net cash generated from financing activities		4,432	50
Decrease in cash		(1,967)	(963)
Cash at the beginning of year		3,357	4,320
Cash at the end of year		1,390	3,357
Cash flows of discontinued operation – Note 5			

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

For the years ended May 31	Note	2018 (\$)	2017 (\$)
Capital stock			
Balance at beginning of year		61,162	60,751
Private placement	12	2,128	-
Exercise of stock options		-	377
Grant of shares		-	34
Balance at end of year		<u>63,290</u>	<u>61,162</u>
Contributed surplus			
Balance at beginning of year		5,836	5,925
Stock based compensation recognized	13	57	93
Exercise of stock options	13	-	(182)
Balance at end of year		<u>5,893</u>	<u>5,836</u>
Deficit			
Balance at beginning of year		(30,913)	(33,497)
Net profit/(loss) for the year		(36,867)	2,585
Balance at end of year		<u>(67,780)</u>	<u>(30,913)</u>
Currency translation reserve		<u>(912)</u>	<u>(890)</u>
Shareholders' equity at end of year		<u>491</u>	<u>35,195</u>

1. Nature of Operations

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 Echevarriarza 3535 Of. 1512, Montevideo 11,500, Uruguay, 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.

2. Basis of preparation and going concern

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.

Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material. At May 31, 2018, the Company has a net working capital deficiency of \$10,622 (May 31, 2017 positive net working capital – \$3,070). Total amounts due within 12 months on the Company’s long-term financial debt is \$1,730 (May 31, 2017 – \$202). Total amount of accounting payables and other accrued liabilities is \$17,845 (May 31, 2017 - \$14,518).

Currently the Company is facing one of the most complex and difficult situations in its long-standing operation as a consequence of the lack of good quality ore during the last year and the lack of financing to develop the Veta A project (currently the highest-grade source of underground ore available on the San Gregorio mine complex).

On June 14, 2018, Loryser S.A. (the Company’s operating subsidiary) applied to commence reorganisation proceedings under Uruguayan legislation (Act N°18.387) (the “Loryser Reorganisation Proceedings”). To continue with the mine plan, a swift and timely transition from San Gregorio Underground to the Veta A underground project would be needed, which itself would require external financing and the environmental permit in Veta A which are currently not yet available. As a result of the current circumstances, the Board of Directors has been actively exploring a number of alternatives for Orosur and its subsidiaries. The decision to apply for the Loryser Reorganisation Proceedings and creditor protection was made in consultation with the Company’s legal and financial advisors and the Company’s management believes it to be in the best interests of Loryser, the Company and their stakeholders.

The Company's continuance as a going concern is dependent upon its ability to obtain adequate financing and to reach profitable levels of operations. These material uncertainties may cast significant doubt upon the Company's ability to realize its assets and discharge its liabilities in the normal course of business and accordingly the appropriateness of the use of accounting principles applicable to a going concern. Although the Company has been successful in the past in obtaining financing there is no assurance that it will be able to obtain adequate financing in future or that such financing will be on terms advantageous to the Company.

These financial statements were authorized by the Board of Directors for issue on August 29, 2018.

3. Significant Accounting Policies

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 15 (a) and are all 100% owned by Orosur with the exception of Anillo SPA, which is currently 81% 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 15(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 cut-off 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 doré 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) Non-current assets (or disposal groups) held for sale and discontinued operations:

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset (or disposal group) is recognised at the date of derecognition.

Non-current assets (including those that are part of a disposal group) are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of a disposal group classified as held for sale are presented separately from the other assets in the balance sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the balance sheet.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single coordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss.

(p) 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.

The Company is working on the final assessment from the preliminary analysis no material changes to its consolidated financial statements resulting from the implementation of IFRS 9 are expected.

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 working on the final assessment from the preliminary

analysis no material changes to its consolidated financial statements resulting from the implementation of IFRS 15 are expected.

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 currently evaluating the impact of IFRS 16 on its consolidated financial statements.

IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

Issued by the IASB on June 7, 2017. IFRIC 23 provides guidance on the accounting for current and deferred tax liabilities and assets in circumstances in which there is uncertainty over income tax treatments. The Interpretation is applicable for annual period beginning on or after January 1, 2019. Earlier application is permitted. The Company intends to adopt the Interpretation in its consolidated financial statements for the annual period beginning on June 1, 2019. The Company is currently in the process of assessing the impact of IFRIC 23 on its consolidated financial statements.

4. Critical accounting estimates, judgements and assumptions

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.

5. Discontinued operations

In Chile, the Company had an exploration program on the Anillo property, optioned from Corporación Nacional del Cobre de Chile ("Codelco"), Chile's national mining company, located close to Antofagasta, in Region II, Northern Chile. The Company also owns 25% of the Talca exploration asset located close to La Serena, north of Santiago.

Anillo

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.

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 defined a non-dilutive financing of up to \$3,500 to advance the exploration of Anillo and stated 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 invested \$970 and \$100 respectively to funding the Phase 1 of the exploration of Anillo.

On May 24, 2018, the Company announced its decision to terminate the option agreement on its Anillo gold exploration project with Codelco. As result, as of May 31, 2018 an impairment of \$5,485 was recognized.

Talca

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 comprised 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.

As of May 31, 2018, the related assets were disclosed as held for sale for \$120 and an impairment charge of \$1,802 was recognized. On July 2018, the company completed the sale of the mining property for a gross proceed of \$120.

Pantanillo

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 gave the mining concessions of this project back to Anglo in June 2017. As of May 31, 2018, the value of the related assets was \$nil (2017 - \$nil).

Anglo disputed the payment of some minimum royalties adding to \$3.0 million and requested an arbitration which is ongoing as of the date of these financial statements. The claim is exclusively against Fortune Valley (Company’s wholly owned subsidiary) and there are enough arguments to support the Company’s position, following advice from its Chilean lawyers, management concluded that the payment does not apply and is unlikely to require an outflow of resources for the Company.

Accordingly, the assets and liabilities related to Chile have been reclassified as assets and liabilities of discontinued operations in the consolidated financial statements as at May 31, 2018. Operating results and cash flow related to these assets and liabilities have been included as a net loss from discontinued operations in the consolidated statements of profit/(loss) and comprehensive profit/(loss), and as cash flow from discontinued operations in the consolidated statements of cash flows, respectively.

Net assets of discontinued operations held for sale

	As at May 31 2018(\$)	As at May 31 2017(\$)
Assets		
Cash	16	99
Accounts receivable and other assets	14	78
Asset held for sale	120	-
Total current assets	150	176
Exploration and evaluation costs	-	6,234
Restricted cash	2	20
Total non-current assets	2	6,254
Total assets	152	6,430
Liabilities		
Trade payables and other accrued liabilities	120	113
Total current liabilities	120	113
Total liabilities	120	113
Net assets of discontinued operations held for sale	32	6,317

Net loss and comprehensive loss from discontinued operations

For the year ended May 31	2018 (\$)	2017 (\$)
Exploration expenses	(275)	(361)
Exploration and evaluation costs written off	(6,222)	-
Other income	29	2
Foreign exchange gain	162	49
Loss before income tax	(6,305)	(310)
Expense for income taxes	(239)	-
Net loss and comprehensive loss for the year	(6,544)	(310)

Cash flow from discontinued operations

For the year ended May 31	2018 (\$)	2017 (\$)
Net inflow (outflow) of cash related to the following activities		
Cash flow from operating activities		
Net loss for the year	(6,544)	(310)
<i>Adjustments to reconcile net income to net cash provided from operating activities:</i>		
Exploration and evaluation costs written off	6,222	-
Deferred income tax assets	239	-
Other	71	(109)
Subtotal	(13)	(201)
<i>Changes in working capital</i>		
Accounts receivable and other assets	19	(4)
Trade payables and other accrued liabilities	(207)	(148)
Net cash used in from operating activities	(201)	(352)
Cash flow from investing activities		
Exploration and evaluation expenditure assets	(176)	(318)
Net cash used in investing activities	(176)	(318)
Cash flow from financing activities		
Repayment from Orosur Mining Inc	294	708
Net cash generated from financing activities	294	708
Decrease in cash	(83)	38
Cash at the beginning of year	99	61
Cash and cash equivalents at the end of year	16	99

6. Accounts receivable and other assets, trade payables and other accrued liabilities

(i) Accounts receivable and other assets	May 31, 2018 (\$)	May 31, 2017 (\$)
Tax receivable (a)	633	967
Advance payments to suppliers	197	270
Marketable securities	8	8
Miscellaneous receivable (b)	712	274
Total accounts receivable	1,550	1,519
 <u>Non-current</u>		
Miscellaneous receivable (c)	73	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. It also includes \$397 of the prepayment as explained below.

(c) Non-current miscellaneous receivable includes a prepayment made to a supplier in April 2013 to start the raise boring 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. On December 4, 2017, the Company settled the dispute and the supplier will pay a total of \$470, of which 23% correspond to contractual and legal fees payable to the Company's lawyers. The \$470 is payable in 47 monthly instalments. The Company will be paid the first 23 instalments (of which the first five will total \$216) and the lawyers will be paid the last 24 instalments. The supplier has paid five instalments as of the date of these financial statements (\$216). As of May 31, 2018, \$181 was recognized as current miscellaneous receivable and \$73 as non-current asset.

(ii) Trade payables and other accrued liabilities	May 31, 2018 (\$)	May 31, 2017 (\$)
Commercial suppliers	11,872	10,749
Salaries, labour benefits and social security contributions	5,136	3,479
Mining royalties, income tax and other taxes	837	290
Total trade payables and other accrued liabilities	17,845	14,518

7. Inventories

	May 31, 2018 (\$)	May 31, 2017 (\$)
Ore in stockpiles (i)	681	1,625
Gold in circuit	403	1,384
Finished metals	660	868
Mine operating supplies (ii)	4,356	9,280
Total inventories	6,100	13,157

- (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. As of May 31, 2018, an impairment charge of \$1,161 (2017 - \$nil) was recognized given the impossibility of recovering its value in the near future.
- (ii) For the year ended May 31, 2018, an obsolescence provision of \$4,678 was recognized (2017 - \$113) as an inventory adjustment against spare parts and consumables, which was included in the consolidated statement of comprehensive loss.

8. Property, Plant and Equipment and development costs

	Development costs						
Cost	Tangible fixed assets (1)	Decommission ing 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)	Total
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)
Balance May 31, 2017	\$ 79,614	11,283	38,927	55,362	5,075	560	190,821
Additions	\$ 3,828	122	5,529	130	225	-	9,834
Reclassification from E&E (7)	\$ -	-	148	95	492	-	735
Other adjustments	\$ 60	-	-	659	(659)	-	60
Other (8)	\$ -	(216)	-	-	-	-	(216)
Disposals	\$ (2,007)	-	-	-	-	-	(2,007)
Balance May 31, 2018	\$ 81,493	11,189	44,603	56,247	5,133	560	199,226

	Development costs						
	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)	Total
Accumulated depreciation							
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)
Balance May 31, 2017	\$ 75,117	10,491	32,278	53,571	2,644	560	174,661
Depreciation	\$ 2,837	178	4,964	922	-	-	8,901
Impairment	\$ 2,066	-	5,339	1,210	2,467	-	11,083
Other	\$ -	-	-	543	(543)	-	-
Disposals	\$ (1,995)	-	-	-	-	-	(1,995)
Balance May 31, 2018	\$ 78,025	10,669	42,581	56,247	4,568	560	192,648
Carrying amount							
As at May 31, 2018	\$ 3,468	520	2,022	-	565	-	6,578
As at May 31, 2017	\$ 4,497	792	6,649	1,791	2,431	-	16,160
As at May 31, 2016	\$ 3,698	908	1,004	20	4,476	-	10,106

(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 11.

(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.

9. Exploration and evaluation costs

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

	Uruguay	Chile	Colombia	Total
May 31, 2016	4,418	6,407	6,426	17,251
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)
May 31, 2017	3,697	6,725	7,255	17,677
Cash expenditure	2,550	176	2,457	5,183
Foreign exchange movement	-	-	43	43
Other	487	(559)	-	(72)
Transfer to depreciable assets	(735)	-	-	(735)
Reclassification of asset held for sale	-	(120)	-	(120)
Written-off	(5,999)	(6,222)	-	(12,221)
May 31, 2018	-	-	9,755	9,755

(a) Exploration farm-in agreements and acquisitions:

The Company does not have materials explorations farm-in agreements and acquisitions to disclose.

(b) 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 \$12,221 (2017 - \$131) was recognized as explained in Note 10.

Capitalized exploration expenditures of \$735 (2017 – \$2,098) 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 and Veta A.

(c) 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, 2018 to support exploration activities on tenements granted were approximately \$412 (May 31, 2017 - \$584).

10. Impairment

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.

Impairment indicators were identified for the Production (Uruguay) CGU for the year ended May 31, 2018. 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, 2018, the Company completed an assessment of the carrying value of its CGUs and recorded a non-cash impairment charge of \$11,083 (May 31, 2017 - \$nil) for property, plant and equipment and development costs. The impairment was due to the complex and difficult situation in its long-standing operation as a consequence of the lack of good quality ore during the last year and the lack of financing to develop the Veta A project (currently the highest-grade source of underground ore available on the San Gregorio mine complex). As a result of the current circumstances, Loryser SA. (the wholly owned operating subsidiary in Uruguay) applied to commence reorganisation proceedings in Uruguay. The future of the operation in Uruguay is under high levels of uncertainty (Note 25).

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 20% and 24% (due to the high level of uncertainty) for various assets of the CGU and gold prices between US\$1,200 and US\$1,300 per ounce.

In addition to the impairment testing performed by the Company at May 31, 2018, the Company also undertook a sensitivity analysis to identify the impact of changes in long-term pricing and discount rates. The Company believes that a 10% change in the gold price or in discount rates assumptions will not have a material 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, 2018	5,999	6,222	-	12,221
Impairment of exploration and evaluation costs at May 31, 2017	131	-	-	131

For the year ended May 31, 2018, the Company recorded an impairment charge of \$12,221 (May 31, 2017 – \$131), \$ 5,999 related to exploration projects in Uruguay and \$ 6,222 related to exploration projects in Chile. The Company discontinued its operations in Chile (Note 5).

11. Environmental rehabilitation provision

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 2.93% (2017 – 2.11%) and an inflation factor of 1.557% (2017 – 1.191%).

The following table summarizes the movements in the environmental rehabilitation provision for the years ended May 31, 2018 and 2017.

	May 31, 2018 (\$)	May 31, 2017 (\$)
Balance at beginning of year	5,648	5,687
Changes in cash flow estimates/new obligations	(94)	156
Expenditure incurred in rehabilitation	(122)	(213)
Accretion expense	(10)	18
Balance at end of year	5,422	5,648
Current portion	(139)	(243)

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 \$94 has been deducted from (2017 - \$156 added to) the environmental rehabilitation provision. The estimated decrease 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 \$5,551 (2017- \$ 5,836).

Uruguayan mining and environmental legislation require environmental obligations to be supported by guarantees. As a result, a rehabilitation guarantee letter of credit of \$1,351 (2017 - \$1,300) has been provided by Santander Bank Uruguay (\$1,200) and a local Uruguayan insurance company (\$ 151). An environmental guarantee for \$5,000 (2016 – \$5,000) has been provided by AIG, a local Uruguayan insurance company.

12. Capital stock

The Company has an authorized capital of unlimited number of common shares of no par value. As of May 31, 2018, the Company has a total of 117,586,905 issued shares outstanding (May 31, 2017 – 100,846,403). Movements in capital for the year are shown hereinafter:

	Number of shares (000's)	(\$)
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
Shares issued on private placement (iv)	16,741	3,223
Warrants (iv)	-	(766)
Broker commission and other issue expenses of private placement (iv)	-	(329)
Balance as of May 31, 2018	117,587	63,290

- 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 periods 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.
- iv) On August 14, 2017, the Company raised gross proceeds of CDN\$4,034 (\$3,223) 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 8,370,251 unlisted warrants over new common shares on the basis of one subscription warrant for every two subscription shares at an exercise price of CDN\$0.337 at any time and until August 14, 2020. The gross proceeds were allocated to the warrants first and then to the shares. The fair value of the warrants of \$766 was estimated at the date of the grant using the Black-Scholes option pricing model with a risk-free rate of 1.27% and an annual volatility factor of 91.869%. It was recognized as a liability due to the exercise price is denominated in Canadian dollar. After initial recognition, at the end of May 31, 2018 the fair value of the warrant was \$68 due mainly to the decrease in share price recognition. The broker's commissions and other related expenses of the issue amounted to \$329.

13. Stock-based compensation

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, 2018:

	Number of Shares (000s)	Option Price per Share Range CDN \$	Weighted Average Exercise Price CDN \$
Balance at May 31, 2016	7,676	\$0.105 - \$0.267	\$0.17
Expired	(663)	\$0.105 - \$0.267	\$0.25
Forfeited	(383)	\$0.105 - \$0.235	\$0.14
Granted	434	\$0.18 - \$0.28	\$0.23
Granted	1,960	\$0.235	\$0.235
Exercised	(1,443)	\$0.105 - \$0.235	\$0.13
Exercised	(342)	\$0.105 - \$0.185	\$0.18
Cancelled	(17)	\$0.105 - \$0.235	\$0.21
Balance at May 31, 2017	7,222	\$0.105 - \$0.235	\$0.19
Forfeited	(137)	\$0.105 - \$0.240	\$0.20
Granted (i)	1,925	\$0.24	\$0.24
Expired	(66)	\$0.105 - \$0.24	\$0.20
Balance at May 31, 2018	8,944	\$0.105 - \$0.28	\$0.20

- (i) On November 17, 2017, 1,925,000 options were granted to directors, officers and employees of the Company pursuant to the Company’s stock option plan and \$22 of stock-based compensation expense was recorded for this grant. The fair value was determined based on the Black-Scholes option pricing model using the following assumptions: strike price – CDN\$ 0.24; risk free interest rate – 1.44%; expected daily volatility – 73.47%; expected life – 5 years; forfeiture rate – 10% and expected dividends - \$nil.

Outstanding				Exercisable	
Range of option	Options	Weighted average	Weighted average remaining	Options	Weighted average
Price	000s	Exercise Price	contractual life	000s	Exercise Price
CDN \$		CDN \$	Years		CDN \$
0.00 – 0.12	1,475	0.105	2.64	1,475	0.105
0.13 – 0.20	2,333	0.180	1.31	2,333	0.180
0.21 – 0.25	5,053	0.236	3.80	3,216	0.236
0.26 – 0.30	83	0.280	3.26	84	0.280
	8,944	0.20	2.73	7,107	0.19

At May 31, 2018, there were 8,943,924 options outstanding of which 7,107,426 are exercisable (May 31, 2017 – 7,222,426 and 5,134,092, respectively). The weighted average exercise price of the options outstanding at May 31, 2018 is CDN\$0.20 (May 31, 2017, CDN\$ 0.19).

During the year ended May 31, 2018, \$57 (2017 – \$93) of stock-based compensation expense was recorded.

14. Corporate and administrative expenses by nature

	May 31, 2018	May 31, 2017
Directors' fees and executive remuneration and benefits	969	1,220
Consulting and professional fees	520	443
Listing and regulatory expenses	228	196
Site general and administrative	457	85
Management stock-based compensation	57	93
Total continuing operations	2,231	2,037
Total discontinued operations	-	361

15. Related parties and remuneration of key management

(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 2018	Equity interest 2017	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	81%	82%	US dollar
Orosur Mining (UK) Limited	United Kingdom	100%	-	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 do not receive any compensation as director.

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

	May 31, 2018 (\$)	May 31, 2017 (\$)
Salaries and other short-term employee benefits	1,010	1,187
Directors' fees	143	148
Share options	27	24
Total	1,180	1,359

Directors and key executives are also granted stock options to acquire the Company's shares. During the year ended May 31, 2018, 515,000 options were granted to directors (2017 – 392,881) and 200,000 stock options were granted to executive officers (2017 – 949,544). During the year ended May 31, 2018, no stock options were exercised by directors (2017 – nil) and no stock options were exercised by executive officers (2017 – nil). The Company's weighted average share price for the options granted to key management for the year ended May 31, 2018 was CDN\$0.20 (May 31, 2017 – CDN\$0.23).

16. Income Taxes

(a) Current and deferred income tax composition:

Continuing operations	May 31, 2018 (\$)	May 31, 2017 (\$)
Current income tax (expense)/recovery for the year	(6)	(24)
Deferred income tax (expense)/recovery	(3,115)	581
Total income tax (expense)/recovery	(3,121)	557
Discontinued operations		
Current income tax expense for the year	(239)	-
Deferred income tax recovery	-	-
Total income tax expense	(239)	-

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:

	May 31, 2018 (\$)	May 31, 2017 (\$)
Balance beginning of year	3,115	2,534
Recognized deferred tax recovery	(3,115)	581
Balance end of year	-	3,115
	May 31, 2018 (\$)	May 31, 2017 (\$)
Property plant and equipment and development costs	-	1,375
Inventories	-	(1)
Exploration and evaluation costs	-	(189)
Labor provisions	-	43
Fiscal losses	-	1,887
Deferred income tax asset	-	3,115

Changes in the value of the deferred income tax asset have been recognized in the statement of income. The deferred tax asset in previous year represented future tax deductions in Uruguay. The Company has no deferred tax asset in any other jurisdiction in which it operates. As of May 31, 2018, the Company has recognized \$nil 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 not probable (2017 - \$3,115).

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.

(c) Unrecognized tax benefits

At May 31, 2018, the Company had non-capital loss carry forwards of \$100,095 (May 31, 2017 - \$60,216). The losses at gross value by tax jurisdictions expire as shown in the following table:

Expiry date	Barbados (\$)	Canada (\$)	Chile (\$)	Colombia (\$)	Uruguay (\$)	Total (\$)
May 2019	944	-	-	-	3,440	4,384
May 2020	846	-	-	-	7,673	8,519
May 2021	1,521	-	-	-	4,588	6,109
May 2022	1,766	-	-	-	8,842	10,609
May 2023	386	-	-	-	7,397	7,783
May 2024	608	-	-	-	-	608
May 2025	256	-	-	-	-	256
May 2026 to May 2036	-	13,081	-	-	-	13,081
No expiration term	-	-	48,748	-	-	48,748
Total	6,326	13,081	48,748	-	31,940	100,095

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, 2018 (\$)	May 31, 2017 (\$)
Profit/(Loss) before taxes	(27,180)	2,028
Income tax rate (i)	30%	30%
Expected income tax (expense)/recovery	8,154	(608)
<i>Tax effect of:</i>		
Effect of lower jurisdictions tax rates (i)	(70)	(70)
Tax losses for the year not recognized (ii)	(2,283)	(361)
Foreign exchange rate	(820)	(68)
Recognition of previously unrecognized temporary differences	-	1,664
Other temporary differences not recognized	(8,102)	-
Income tax (expense)/recovery for the year	(3,121)	557

(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.

17. 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/discontinued operation)	Exploration (Colombia)	Corporate	Total
For the year ended May 31, 2018						
Sales	37,100	-	-	-	-	37,100
Cost of sales	(38,170)	-	-	-	-	(38,170)
Exploration expenses	-	(9)	-	(198)	-	(207)
Exploration and evaluation costs written off	-	(5,999)	-	-	-	(5,999)
Obsolescence provision	(4,678)	-	-	-	-	(4,678)
Restructuring costs (i)	(2,840)	-	-	-	-	(2,840)
Impairment of assets	(11,083)	-	-	-	-	(11,083)
Inventory write-downs	(1,161)	-	-	-	-	(1,161)
Corporate costs	-	-	-	-	(2,231)	(2,231)
Discontinued operations	-	-	(6,467)	-	-	(6,467)
Other income (ii)	995	-	-	-	-	995
Total segment loss	(19,837)	(6,008)	(6,467)	(198)	(2,231)	(34,742)
Investment in exploration and evaluation	-	2,550	176	2,457	-	5,183
Investment in PP&E and development costs	9,712	-	-	-	-	9,712
As at May 31, 2018						
Property, plant and equipment and development costs	6,514	7	-	49	9	6,578
Exploration and evaluation costs	-	-	-	9,755	-	9,755
Total assets	15,948	-	-	9,804	9	25,767

- i) Restructuring costs is mainly a provision for layoffs representing a reduction in staff of 105 employees.
- ii) Includes mainly the sale of crushed rock and also the income from the Company's laboratory for work performed for outside third-party companies.

iii)

	Production (UY)	Exploration (UY)	Exploration (CH)	Exploration (Colombia)	Corporate	Total
For the year ended May 31, 2017						
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	-	-	-	-	(2,037)	(2,037)
Discontinued operations	-	-	-	-	(359)	(359)
Other income	1,463	-	-	62	-	1,525
Total segment income (loss)	5,448	(131)	-	62	(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
As at May 31, 2017						
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

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

	May 31, 2018 (\$)	May 31, 2017 (\$)
Segment profit/(loss) continuing operations	(28,274)	2,983
Segment loss discontinued operations	(6,544)	-
Net finance income/(cost)	(177)	(164)
Derivative gain/(loss)	680	(458)
Net foreign exchange gain/(loss)	591	(333)
Foreign exchange differences on translating foreign operations	(22)	93
Income and deferred tax	(3,121)	557
Total comprehensive income (loss) for the year	(36,867)	2,678

18. Financial Instruments

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, 2018 and May 31, 2017 were as follows:

As at May 31, 2018 (\$)	Loans and receivables	FVTPL	Other financial liabilities	Total
Cash and cash equivalents	1,390	-	-	1,390
Accounts receivable and other assets	1,615	8	-	1,623
Restricted cash	201	-	-	201
Trade payables and other accrued liabilities	-	-	17,845	17,845
Warrants	-	68	-	68
Financial debt	-	-	1,941	1,941
Total	3,206	76	19,786	23,068

As at May 31, 2017 (\$)	Loans and receivables	FVTPL	Other financial liabilities	Total
Cash and cash equivalents	3,357	-	-	3,357
Accounts receivable	2,061	8	-	2,069
Restricted cash	229	-	-	229
Trade payables and other accrued liabilities	-	-	14,518	14,518
Financial debt	-	-	403	403
Total	5,647	8	14,921	20,576

19. Financial risk management and capital management

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.

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, 2018	May 31, 2017	May 31, 2018	May 31, 2017
	\$	\$	\$	\$
10% increase gold price	3,707	4,372	3,707	4,372
10% increase silver price	31	51	31	51
10% decrease gold price	(3,707)	(4,372)	(3,707)	(4,372)
10% decrease silver price	(31)	(51)	(31)	(51)

(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\$) depreciated by 10% (2017 – 9% appreciation) against the US dollar. Exchange rate as of May 31, 2018 was UY\$ 31.192 per 1 US dollar (May 31, 2017 – UY\$28.292). 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 6(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. The Company requires external funding to advance its San Gregorio East and Veta A development work in Uruguay and to advance its exploration program in Colombia.

As of May 31, 2018, the Company had cash and cash equivalents of \$1,390 (May 31, 2017 - \$3,357) and total current assets of \$9,160 (May 31, 2017 - \$18,033) to settle current trade and other accrued liabilities of \$17,845 (May 31, 2017 - \$14,518) and current financial debt of \$1,730 (May 31, 2017 - \$202). None of the cash in Loryser S.A., the Company's operating subsidiary in Uruguay, is accessible to the Company since the declaration of the creditor protection process as described in Note 25. The Company is required to seek additional sources of funding to cover corporate costs and Colombia holding costs.

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	1,941	1,730	211	-
Total	1,941	1,730	211	-

(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, 2018, 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.

20. Cash flow – Additional information

Cash comprises cash at bank and on hand.

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

	May 31, 2018 (\$)	May 31, 2017 (\$)
Income tax paid	4	4
Interest paid	144	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:

	May 31, 2018 (\$)	May 31, 2017 (\$)
Tangible fixed assets as defined in Note 8	3,828	2,809
Mine development costs	5,884	7,812
Environmental rehabilitation as in Note 11	122	213
Total invested	9,834	10,834

21. Basic and diluted earnings/(loss) per share

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:**

		2018	2017
Basic weighted average shares outstanding	number	114,796,821	100,049,902
Net profit(loss) attributable to equity holders	\$	(36,867)	2,678
Continuing operations	\$	(30,323)	2,988
Discontinued operations	\$	(6,544)	(310)
Basic profit/(loss) per share	US cents per share	(0.32)	0.03
Continuing operations	US cents per share	(0.26)	0.03
Discontinued operations	US cents per share	(0.06)	(0.00)

(b) **Diluted:**

		<u>2018</u>	<u>2017</u>
Potential net incremental of dilutive shares	number	3,371,587	4,537,954
Potential proceeds from dilutive share options	\$000	529	584
Average quoted market share price for the period	CDN \$ per share	0.19	0.26
Diluted weighted average shares outstanding	number	115,313,678	102,373,676
Net profit attributable to equity holders	\$000	(36,867)	2,678
Continuing operations	\$000	(30,323)	2,988
Discontinued operations	\$000	(6,544)	(310)
Diluted profit (loss) per share	US dollars per share	(0.32)	0.03
Continuing operations	US dollars per share	(0.26)	0.03
Discontinued operations	US dollars per share	(0.06)	(0.00)

22. Debt

	<u>May 31, 2018 (\$)</u>	<u>May 31, 2017 (\$)</u>
Cash and cash equivalents	1,390	3,357
Current financial debt (i)	(1,730)	(202)
Non-current financial debt	(211)	(201)
Net debt	(551)	2,954

- (i) During the quarter ended February 28, 2018, the Company acquired six light vehicles and a drill rig that were financed with a lease credit facility with Banco Santander (Uruguay). Loryser drew down on the Santander line of credit in the amount of \$1,500 at November 30, 2017 following the deferral of approximately 2,000 ounces of planned production for the quarter ended November 30, 2017 from SGW UG. The line of credit is non-collateralized, bears an interest rate of 5.5% per annum, and is repayable on November 30, 2018.

23. Finance income and finance cost

	<u>May 31, 2018 (\$)</u>	<u>May 31, 2017 (\$)</u>
Finance income		
Interest on bank deposits	5	3
Finance income	5	3

Finance costs	May 31, 2018 (\$)	May 31, 2017 (\$)
Environmental rehabilitation accretion	(10)	18
Interest expense on bank borrowings	192	149
	182	167
Net finance cost	(177)	(164)

24. Cost of Sales

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

	May 31, 2018 (\$)	May 31, 2017 (\$)
Mining and transportation costs	14,307	17,339
Processing costs	9,549	10,506
Mine site administration costs	3,224	3,136
Legal costs <i>(i)</i>	209	679
Change in stockpiles, gold in circuit and finished goods	970	(921)
Refinery charges	468	490
Depreciation	8,901	7,143
Mining royalties and other production tax <i>(ii)</i>	542	1,899
Total cost of sales	38,170	40,271

- (i) Reflects the contingency recognized following some labor claims.
- (ii) On December 28, 2017, the President of Uruguay granted Orosur an exemption on the royalty payment to the Government (3% of sales). It covers the period April 2017 to March 2018.

25. Subsequent Event

On June 14, 2018, Loryser S.A., the Company's operating subsidiary in Uruguay, applied to commence reorganisation proceedings under Uruguayan legislation (Act N°18.387) (the "Loryser Reorganization Proceedings") and creditor protection. The decision to apply for the Loryser Reorganisation Proceedings and creditor protection was made in consultation with the Company's legal and financial advisors in the best interests of Loryser, the Company and their stakeholders. The Reorganization Court of Uruguay declared the start of the Loryser Reorganization Proceedings on June 18, 2018.

The scarcity of alternative sources of ore has made it difficult to reverse this situation which is resulting in financial liquidity constraints. To continue the mine plan, a swift and timely transition from SG UG to the Veta A underground project would be needed, which itself would require external financing and the environmental permit in Veta A which are currently not yet available.

Orosur and its subsidiaries (excluding Loryser S.A.) are not included in the Loryser Reorganization Proceedings.

Loryser continued production at SG UG until the end of July after which it placed the mine in care and maintenance. Loryser will remain able to enter into transactions with its suite of Uruguayan assets. Orosur

is currently conducting conversations with the Government to analyse different options to continue its operations in Uruguay, which represent a very important source of investment and employment in the northern part of Uruguay.

The Company continues to advance discussions to finance the next stage of exploration at the Anzá project in Colombia. In connection with these discussions, on July 10, 2018, a sophisticated international mining company subscribed for 3,603,077 common shares of Orosur at a price of CAD\$0.091 per share for total proceeds of \$250. The subscription price represented a 102% premium to the closing price of the Company's common shares on the Toronto Stock Exchange on July 9, 2018.