

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at March 31, 2018 and December 31, 2017

(unaudited, in thousands of U.S. dollars)

	March 31, 2018	December 31, 2017
ASSETS		
Current Assets		
Cash	14,766	28,767
Accounts receivable	41,592	33,854
Inventories	35,166	28,093
Other current assets (note 4(c) & 4(d))	8,966	7,863
	100,490	98,577
Non-Current Assets		
Investments at fair value (note 4(a) & 4(b))	36,757	48,411
Mine properties	297,078	269,597
Property, plant & equipment	355,701	359,264
Intangible assets	56,261	55,494
Deferred income tax assets	9,736	8,962
Other long-term assets	4,376	4,445
	759,909	746,173
TOTAL ASSETS	860,399	844,750
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	68,847	75,140
Income tax liabilities	5,703	2,993
Current portion of long-term liabilities	2,913	2,184
	77,463	80,317
Non-Current Liabilities		
Long-term debt (note 5(a))	33,000	23,000
Deferred revenue	55,441	50,000
Rehabilitation provisions (note 6)	41,162	38,041
Share based compensation plans (note 7)	6,955	5,923
Other long-term liabilities	16,274	13,981
	152,832	130,945
TOTAL LIABILITIES	230,295	211,262
EQUITY		
Share capital	515,507	515,507
Contributed surplus	12,035	11,720
Retained earnings	80,503	57,115
Accumulated other comprehensive income	14,299	41,820
Equity attributable to common shareholders of the Company	622,344	626,162
Non-controlling interests	7,760	7,326
TOTAL EQUITY	630,104	633,488
TOTAL LIABILITIES AND EQUITY	860,399	844,750

The accompanying notes are an integral part of the condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, except per share amounts)

	Three months ended March 31,	
	2018	2017
Revenue (note 14)	86,888	74,668
Costs and expenses		
Cost of sales	61,741	62,933
General and administrative expenses	12,272	6,650
Corporate social responsibility expenses	259	335
Exploration expenses	1,926	1,640
Finance cost	1,923	2,063
Other expense (note 8)	3,132	12,561
Earnings (loss) before income taxes	5,635	(11,514)
Current income tax expense	3,101	2,305
Deferred income tax recovery	(139)	(1,247)
Net earnings (loss)	2,673	(12,572)
Net earnings (loss) attributable to:		
Common shareholders of the Company	2,707	(12,518)
Non-controlling interests	(34)	(54)
Net earnings (loss)	2,673	(12,572)
Basic and diluted earnings (loss) per share attributable to common shareholders of the Company (note 9)	0.02	(0.07)

The accompanying notes are an integral part of the condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars)

	Three months ended March 31,	
	2018	2017
Net earnings (loss)	2,673	(12,572)
Other comprehensive income (loss) items that may be reclassified subsequently to profit or loss:		
Unrealized gains on forward foreign exchange contracts designated as cash flow hedges, net of income tax expense of \$169 (2017 - \$15)	3,298	1,720
Unrealized gains on commodity swap and option contracts designated as cash flow hedges, net of income tax expense of \$443 (2017 - \$nil)	3,990	-
Deferred cost of hedging on forward foreign exchange contracts, net of income tax expense of \$45 (2017 - \$nil)	134	-
Deferred cost of hedging on commodity swap and option contracts, net of income tax expense of \$128 (2017 - \$nil)	1,149	-
Realized (gains) losses on forward foreign exchange contracts transferred to net earnings (loss), net of income tax expense of \$nil (2017 - \$8)	(959)	1,179
Realized gains on commodity swap and option contracts transferred to net earnings (loss), net of income tax expense of \$61 (2017 - \$nil)	(550)	-
Cost of hedging on forward foreign exchange contracts transferred to net earnings (loss), net of income tax expense of \$nil (2017 - \$nil)	(212)	-
Cost of hedging on commodity swap and option contracts transferred to net earnings (loss), net of income tax expense of \$33 (2017 - \$nil)	(295)	-
Unrealized gains on publicly traded securities, net of income tax expense of \$nil (2017 - \$nil)	-	10,149
Currency translation adjustments	2,052	-
Other comprehensive income (loss) items that will not be reclassified subsequently to profit or loss:		
Unrealized losses on publicly traded securities, net of income tax recovery of \$1,198 (2017 - \$nil)	(13,331)	-
	(4,724)	13,048
Comprehensive income (loss)	(2,051)	476
Comprehensive income (loss) attributable to:		
Common shareholders of the Company	(2,463)	530
Non-controlling interests	412	(54)
Comprehensive income (loss)	(2,051)	476

The accompanying notes are an integral part of the condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars)

	Three months ended March 31,	
	2018	2017
OPERATING ACTIVITIES		
Earnings (loss) before income taxes	5,635	(11,514)
Items not affecting cash and other adjustments (note 11(a))	15,802	30,384
Changes in non-cash working capital (note 11(b))	(7,401)	17,586
Payments for settlement of derivative contracts	(2,439)	(1,759)
Income taxes paid	(554)	(131)
Cash provided from operating activities	11,043	34,566
INVESTING ACTIVITIES		
Purchase of publicly traded securities	(3,994)	-
Proceeds from disposal of mine properties and property, plant and equipment	21	20
Expenditures on mine properties	(23,692)	(12,201)
Expenditures on property, plant and equipment	(5,299)	(3,940)
Expenditures on intangible assets	(13)	(339)
Cash used in investing activities	(32,977)	(16,460)
FINANCING ACTIVITIES		
Proceeds from share issuance	101	33,196
Share issuance costs	-	(329)
Drawdowns (repayments), net under revolving credit facility (note 5(a))	10,000	(25,000)
Financing fees on debt	-	(390)
Finance lease obligation	(442)	(376)
Interest paid	(1,726)	(1,416)
Cash provided from financing activities	7,933	5,685
Increase (decrease) in cash	(14,001)	23,791
Cash at beginning of period	28,767	11,757
Cash at end of period	14,766	35,548

The accompanying notes are an integral part of the condensed interim consolidated financial statements

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, except for number of shares)

	March 31, 2018		March 31, 2017	
	Number	Amount	Number	Amount
Share capital				
Authorized				
Unlimited common and preference shares with no par value				
Issued				
Fully paid common shares with one vote per share				
Balance at beginning of period	178,492,566	515,507	160,588,112	482,656
Shares issued on financing	-	-	17,843,120	33,176
Share issuance costs		-		(506)
Shares issued on exercise of stock options (note 7)	-	-	9,466	20
Transferred from contributed surplus on exercise of stock options		-		11
Balance at end of period	178,492,566	515,507	178,440,698	515,357
Contributed surplus				
Balance at beginning of period		11,720		10,890
Share based compensation expense		337		402
Transferred to share capital on exercise of stock options		-		(11)
Other changes in contributed surplus		(22)		(34)
Balance at end of period		12,035		11,247
Retained earnings				
Balance at beginning of period		57,115		56,898
Impact of adoption of IFRS 9 (note 2.2)		20,681		-
Adjusted balance at beginning of period		77,796		56,898
Net earnings (loss) attributable to common shareholders of the Company		2,707		(12,518)
Balance at end of period		80,503		44,380
Accumulated other comprehensive income (note 12)				
Balance at beginning of period		41,820		1,360
Impact of adoption of IFRS 9 (note 2.2)		(20,681)		-
Adjusted balance at beginning of period		21,139		1,360
Other comprehensive income (loss)		(5,170)		13,048
Realized gains on forward foreign exchange contracts and cost of hedging transferred to Mine Properties, net of income tax expense of \$186 (2017 - \$nil)		(1,670)		-
Balance at end of period		14,299		14,408
Total equity attributable to common shareholders of the Company		622,344		585,392
Non-controlling interests				
Balance at beginning of period		7,326		223
Net loss attributable to non-controlling interests		(34)		(54)
Other comprehensive income attributable to non-controlling interests		446		-
Other changes in non-controlling interests		22		34
Balance at end of period		7,760		203
Total equity at end of period		630,104		585,595

The accompanying notes are an integral part of the condensed interim consolidated financial statements

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

1. CORPORATE INFORMATION

Dundee Precious Metals Inc. (“DPM”) is a Canadian based, international gold mining company engaged in the acquisition of mineral properties, exploration, development, mining and processing of precious metals. DPM is a publicly listed company incorporated in Canada with limited liability under legislation of the Province of Ontario. DPM has common shares traded on the Toronto Stock Exchange (“TSX”). The address of DPM’s registered office is 1 Adelaide Street East, Suite 500, P. O. Box 195, Toronto, Ontario, M5C 2V9.

As at March 31, 2018, DPM’s condensed interim consolidated financial statements include DPM and its subsidiary companies (collectively, the “Company”).

DPM’s principal subsidiaries include:

- 100% of Dundee Precious Metals Chelopech EAD (“Chelopech”), which owns and operates a gold, copper and silver mine located east of Sofia, Bulgaria;
- 100% of Dundee Precious Metals Krumovgrad EAD (“Krumovgrad”), which is currently constructing a gold mine located in south eastern Bulgaria, near the town of Krumovgrad; and
- 100% of Dundee Precious Metals Tsumeb (Proprietary) Limited (“Tsumeb”), which owns and operates a custom smelter located in Tsumeb, Namibia.

DPM holds interests in a number of exploration properties located in Canada, Serbia and Armenia, including:

- 10.2% of Sabina Gold and Silver Corp. (“Sabina”), which is focused on the Back River project in southwestern Nunavut, Canada;
- 100% of Avala Resources Ltd., which is focused on the exploration and development of the Lenovac project, the Timok gold project, the Tulare copper and gold project and other early stage projects in Serbia; and
- through an option agreement, the right to earn up to a 71% interest in Pershimex Resources Corporation’s (previously Khalkos Exploration Inc.) gold property located in the Archean Abitibi greenstone belt in the Malartic mining camp in Quebec, Canada.

DPM also owns:

- 78% equity interest in MineRP Holdings Proprietary Limited, an independent mining software vendor with operations in Canada, South Africa, Australia and Chile, through MineRP Holdings Inc. (“MineRP”) (*note 3*).

2.1 BASIS OF PREPARATION

These condensed interim consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”) which the Canadian Accounting Standards Board has approved for incorporation into Part I of the Chartered Professional Accountants of Canada Handbook – Accounting applicable to the preparation of interim financial statements, including International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*. These condensed interim consolidated financial statements do not include all of the information required for full financial statements and should be read in conjunction with the Company’s annual consolidated financial statements for the year ended December 31, 2017, which have been prepared in accordance with IFRS.

The accounting policies applied in these condensed interim consolidated financial statements are consistent with those applied in the preparation of the Company’s annual consolidated financial statements for the year ended December 31, 2017, except for the changes in accounting policies as described below in *note 2.2*. These condensed interim consolidated financial statements were approved by the Board of Directors on May 2, 2018.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

2.2 CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments*, and IFRS 15, *Revenue from Contracts with Customers*, which resulted in changes in accounting policies as described below. In accordance with the transitional provisions in both standards, the Company adopted these standards retrospectively without restating comparatives, with the cumulative impact adjusted in the opening balances as at January 1, 2018, except for hedge accounting in respect of commodity swap and option contracts that was applied prospectively.

IFRS 9, *Financial Instruments*

IFRS 9 replaces IAS 39, *Financial Instruments: Recognition and Measurement*. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss (“FVPL”) or through other comprehensive income (“FVOCI”); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets and requires that there be a demonstrated economic relationship between the hedged item and hedging instrument.

Upon adoption of IFRS 9, the two main changes in the Company’s accounting policy on financial instruments are: i) equity investments previously classified as available-for-sale are now classified as financial assets measured at FVOCI and ii) derivative instruments previously held for trading now qualify for hedge accounting, including the Company’s commodity swap and option contracts, to the extent they comply with the IFRS 9 criteria for hedge accounting.

Equity investments previously classified as available-for-sale financial assets satisfied the conditions for classification as financial assets at FVOCI and the Company elected to irrevocably designate them at FVOCI. Gains and losses in respect of these investments are recognized in other comprehensive income or loss in the consolidated statements of comprehensive income (loss), are not transferred to profit or loss upon disposition and are not subject to impairment assessments.

The new hedge accounting standards more closely align the accounting for hedging instruments with the Company’s risk management practices. As a result, more hedge relationships are eligible for hedge accounting. Upon adoption of IFRS 9, the Company’s forward foreign exchange contracts, which previously qualified for hedge accounting, continue to qualify. The Company has also elected to account for the forward point component of forward foreign exchange contracts as a cost of hedging. The Company’s commodity swap and option contracts, which previously did not qualify for hedge accounting under IAS 39, now qualify for hedge accounting to the extent they comply with the IFRS 9 criteria for hedge accounting.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

2.2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company's financial instruments:

	Financial instrument classification	
	Under IAS 39	Under IFRS 9
Financial assets		
Cash	Loans and receivables	Amortized cost
Accounts receivable		
on provisionally priced sales	Held for trading	FVPL
Other accounts receivable	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Sabina special warrants (4(a))	Held for trading	FVPL
Publicly traded securities (4(b))	Available for sale	FVOCI
Commodity swap and option contracts (4(c))	Derivatives held for trading	Derivatives for cash flow and fair value hedges
Forward foreign exchange contracts (4(d))	Derivatives for cash flow hedges	Derivatives for cash flow hedges
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Debt (note 5)	Other financial liabilities	Amortized cost
Commodity swap and option contracts (4(c))	Derivatives held for trading	Derivatives for cash flow and fair value hedges
Forward foreign exchange contracts (4(d))	Derivatives for cash flow hedges	Derivatives for cash flow hedges

The effects of adopting IFRS 9 in the opening balances as at January 1, 2018 are summarized in the table below:

	Impact on opening balances upon adoption of IFRS 9		
	Retained earnings	Accumulated other comprehensive income	Impact on Total equity
Balance as at December 31, 2017	57,115	41,820	98,935
Reclassify equity investments from available for sale to FVOCI (i)	20,645	(20,645)	-
Elect cost of hedge accounting (ii)	36	(36)	-
Adjusted balance as at January 1, 2018	77,796	21,139	98,935

- (i) Upon adoption of IFRS 9, impairment charges on available-for-sale investments previously recognized in profit or loss were transferred from retained earnings to accumulated other comprehensive income with no impact on total shareholders' equity.
- (ii) Upon adoption of IFRS 9, the accumulated unrealized losses, net of income taxes, on the forward point component of outstanding forward foreign exchange contracts previously recognized in profit or loss were transferred from retained earnings to accumulated other comprehensive income with no impact on total shareholders' equity.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

2.2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The following are the Company's new accounting policies for its financial instruments under IFRS 9:

(a) Financial assets and liabilities excluding derivative instruments related to hedging activities

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified as "financial assets at fair value (either through other comprehensive income, or through profit or loss)" and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets with embedded derivatives are considered in their entirety when determining their classification at FVPL or at amortized cost. The Company has classified accounts receivable on provisionally priced sales as financial assets measured at FVPL. Other accounts receivable held for collection of contractual cash flows are measured at amortized cost.

Subsequent measurement – Financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of earnings (loss). The Company's investment in Sabina special warrants and its accounts receivable on provisionally priced sales are classified as financial assets at FVPL.

Subsequent measurement – Financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company's investments in publicly traded equity securities are classified as financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive income (loss). When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss. Dividends from such investments are recognized in other income in the consolidated statements of earnings (loss) when the right to receive payments is established.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

2.2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company's only financial assets subject to impairment are other accounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Financial liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and long-term debt, which are each measured at amortized cost.

All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

Subsequent measurement - financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate ("EIR") method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in finance cost in the consolidated statements of earnings (loss).

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of earnings (loss).

(b) Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the dates they are entered into and are subsequently re-measured at their fair value at the end of each reporting period. The method of recognizing the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

2.2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

For a derivative instrument to qualify for hedge accounting, the Company documents at the inception of the transaction the relationship between a hedging instrument and hedged item, as well as its risk management objectives and strategy for undertaking the hedging transaction. The Company also documents its assessment, both at inception and on an ongoing basis, of whether the derivative used to hedge an underlying exposure is highly effective in offsetting changes in the cash flows of the hedged item.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity is more than 12 months, and as a current asset or liability when the remaining maturity is 12 months or less.

Forward foreign exchange contracts designated as cash flow hedges

The Company designates the spot component of forward foreign exchange contracts entered to hedge a portion of its projected operating expenses and capital expenditures denominated in foreign currencies as a cash flow hedge.

The effective portion of changes in fair value of the spot component of the forward foreign exchange contracts are initially recognized in other comprehensive income or loss in the consolidated statements of comprehensive income (loss). For hedges of operating expenses, the accumulated fair value change initially recognized in other comprehensive income or loss in the consolidated statements of comprehensive income (loss) is subsequently recognized in cost of sales in the consolidated statements of earnings (loss) in the period when the underlying hedged operating expenses occur. For hedges of capital expenditures, the accumulated fair value change initially recognized in other comprehensive income or loss in the consolidated statements of comprehensive income (loss) is subsequently included in the carrying value of the underlying assets hedged in the period the underlying hedged capital expenditures occur.

The forward points, or interest rate differential, which form a component of these forward foreign exchange contracts, are treated as a separate cost of hedging. As a result, any unrealized fair value change in the forward point component of the outstanding forward foreign exchange contracts is initially recognized as a deferred cost of hedging in other comprehensive income or loss in the consolidated statements of comprehensive income (loss). The accumulated cost of hedging is subsequently recognized in cost of sales or included in the carrying value of the underlying assets hedged in the period the underlying hedged operating expenses or capital expenditures occur.

Commodity swap and option contracts designated as cash flow hedges

The Company also designates the spot component of commodity swap contracts and the intrinsic value of commodity option contracts to hedge future metal price exposures ("Production Hedges") as cash flow hedges.

The effective portion of changes in fair value of the spot component of the swaps and in the intrinsic value of the options are initially recognized in other comprehensive income or loss in the consolidated statements of comprehensive income (loss). The accumulated fair value change is subsequently recognized in revenue in the consolidated statements of earnings (loss) in the period the underlying hedged sales occur.

The forward points, or time value, which form a component of these commodity swap and option contracts, are treated as a separate cost of hedging. As a result, any unrealized fair value change in the time value component of the outstanding commodity swap and option contracts is initially recognized as a deferred cost of hedging in other comprehensive income or loss in the consolidated statements of comprehensive income (loss). The accumulated cost of hedging is subsequently recognized in revenue in the period the underlying hedged sales occur.

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For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

2.2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

Commodity swap and option contracts designated as fair value hedges

The Company designates the spot component of commodity swap contracts to hedge the metal price exposure associated with the time lag between the provisional and final determination of concentrate sales (“QP Hedges”) as a fair value hedge.

The effective portion of changes in fair value of the spot component of these commodity swap contracts are recognized in revenue in the consolidated statements of earnings (loss), together with any changes in the fair value of the hedged accounts receivable on the provisionally priced sales.

The forward point component of these commodity swap contracts is accounted for separately as a cost of hedging. As a result, any change in the fair value of the forward point component is recognized in revenue in the consolidated statements of earnings (loss).

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for cash flow hedge accounting, the accumulated deferred gains or losses remain in other comprehensive income or loss until the period the underlying transaction that was hedged occurs at which point they are reclassified and recognized in revenue in the consolidated statements of earnings (loss). If the underlying hedged transaction is no longer expected to occur, the accumulated gains or losses that were initially recognized in other comprehensive income or loss are immediately reclassified to other income or expense in the consolidated statements of earnings (loss).

The gains or losses relating to the ineffective portion of all cash flow or fair value hedges, if any, are recognized immediately in other income or expense in the consolidated statements of earnings (loss).

IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 establishes the principles that an entity shall apply to report the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer. IFRS 15 replaces IAS 11, *Construction contracts*, IAS 18, *Revenue*, IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreements for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers* and Standard Interpretations Committee interpretation 31, *Revenue – Barter Transactions Involving Advertising Services*.

Under IFRS 15, revenue is recognized when control of a good or service transfers to a customer and is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. Under IAS 18, revenue was recognized when the significant risks and rewards of ownership had been transferred to the customer and was measured at the fair value of the consideration received or receivable.

While the implementation of IFRS 15 did not have a material impact on the Company’s revenue recognition policies, the Company recognized a deemed financing expense in respect of its prepaid forward gold sales arrangement. This deemed financing expense was capitalized to mine properties under construction as borrowing costs incurred in respect of the Krumovgrad gold project. As a result, mine properties and deferred revenue each increased by \$4.5 million as at January 1, 2018 and \$0.9 million during the three months ended March 31, 2018.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

2.2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

The following are the Company's new accounting policies for revenue recognition under IFRS 15:

(a) Revenue recognition

Revenue from the sale of concentrates containing gold, copper and silver is recognized when control has been transferred, which is considered to occur when products have been delivered to the location specified in the sales contract and the significant risks of loss have been transferred to the buyer. Revenue is measured based on the consideration specified in the contract.

Revenue from the sale of concentrates is initially recorded based on a provisional value which is a function of prevailing market prices, estimated weights and grades less smelter and commercial deductions. Under the terms of the concentrate sales contracts, the final metal price ("settlement price") for the payable metal is based on a predetermined quotational period of London Metal Exchange and London Bullion Market daily prices. The price of the concentrate is the sum of the metal payments less the sum of specified deductions, including treatment and refining charges, penalties for deleterious elements, and freight. The terms of these contracts result in embedded derivatives because of the timing difference between the prevailing metal prices for provisional payments and the actual contractual metal prices used for final settlement. These embedded derivatives are adjusted to fair value at the end of each reporting period through to the date of final price determination with any adjustments recognized in revenue.

Any adjustments to the amount receivable for each shipment on the settlement date, caused by final assay results, are adjusted through revenue at the time of determination.

Revenue from processing concentrate is recognized when concentrate has been smelted and is based on the toll rate specified in the toll agreement, which can vary based on the composition of the concentrate processed and prevailing market conditions at the time the agreement was entered. Under each toll agreement, Tsumeb incurs a carrying charge in respect of the concentrate it processes until blister copper is delivered. This charge is recorded as a reduction of revenue.

Revenue from processing concentrate is also adjusted for any over or under recoveries of metals delivered relative to contracted rates, which are subject to estimation, including the amount of metals contained in concentrate received, material in-process and blister delivered. These significant estimates are based on the Company's process knowledge and multiple assay results, the final results of which could differ from initial estimates.

Revenue from the sale of sulphuric acid, a by-product from processing concentrate at the Tsumeb smelter, is measured at the price specified in the sales contract and is recognized when the control has been transferred, which is considered to occur when the products have been delivered to the location specified in the sales contract and the risk of loss has been transferred to the buyer.

Revenue from MineRP's software services is recognized over time when the services are rendered. This is measured based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided. The estimated revenue or extent of progress toward percentage of completion is revised if changes occur or circumstances arise that indicate a revision is warranted. Any resulting increase or decrease in estimated revenue is reflected in the consolidated statements of earnings (loss) in the period in which such determination is made.

Revenue from licenses entered by MineRP containing software and ongoing services elements is recognized based on the estimated fair value of each element. The fair value of each element is determined based on the market price of each element when sold separately. Revenue relating to the software element is recognized when the control has been transferred to the customer, which occurs on delivery. Revenue relating to the service element is recognized over time when the services are rendered.

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2.2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

(b) Deferred revenue

Deferred revenue is recognized in the consolidated statements of financial position when a cash prepayment is received from one or more customers prior to the sale of product or delivery of service. Revenue is subsequently recognized in the consolidated statements of earnings (loss) when the sale occurs, which generally occurs when control has been transferred or in the case of services, when the services have been rendered.

The Company recognizes the time value of money, where there is a significant financing component, in finance cost when the period between the payment by the customer and transfer of the contracted goods or services exceeds one year.

In assessing the accounting for the Company's prepaid forward gold sales arrangement, the Company used judgement to determine that the upfront cash prepayment received was not a financial liability as the sale will be settled through the delivery of gold, which is a non-financial item rather than through cash or other financial assets. It is the Company's intention to settle this arrangement through its own production. If such settlement is not expected to occur, the prepaid forward gold sales arrangement would become a financial liability as a cash settlement may be required.

2.3 NEW STANDARDS NOT YET ADOPTED

IFRS 16, Leases

IFRS 16, issued in January 2016, replaces IAS 17, *Leases*. IFRS 16 results in most leases being recognized on the balance sheet for lessees, eliminating the distinction between a finance lease and an operating lease. The standard is expected to impact the accounting for the Company's operating leases, which are currently reflected in the consolidated statements of earnings (loss) and in the Company's disclosure in respect of future commitments. Under IFRS 16, all operating leases, except for short term and low value leases, are expected to be accounted for as finance leases. As a result, the leased assets and the associated obligations are recognized in the consolidated statements of financial position. The leased assets will be depreciated over the shorter of the estimated useful life of the asset and the lease term. The lease payments are apportioned between finance charges and a reduction of the lease liability. The current operating lease expense will be replaced with a depreciation charge on the leased assets and a finance charge on the lease liability, which are in aggregate expected to result in a higher total periodic expense in the earlier periods of the lease.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019. Early adoption is permitted for companies that also adopt IFRS 15. The Company does not intend to adopt IFRS 16 before its mandatory date. As a lessee, the Company can either apply the standard using a retrospective approach or a modified retrospective approach. The Company is currently reviewing all of its leases to determine and document the expected changes associated with the adoption of IFRS 16.

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3. SIGNIFICANT TRANSACTIONS

On October 25, 2017, the Company completed the acquisition of MineRP and combination with its Terrative Digital Solutions Division ("Terrative"), creating a technology provider with operations in Canada, South Africa, Australia and Chile in the mining industry for digital innovation. As a result of this transaction, the Company owns a 78% equity interest in MineRP.

The fair value of the acquired intangible assets included \$3.8 million of intellectual property. The goodwill of \$24.6 million recognized upon the acquisition of MineRP is attributable to a number of factors that cannot specifically be allocated to an identifiable asset, including its market reputation, the potential for significant future overall market and MineRP revenue growth, synergies between Terrative and MineRP technologies, and the unique skills and knowledge of its existing employees. The values attributed to intellectual property and goodwill remain provisional as at March 31, 2018. Goodwill as at March 31, 2018 was \$29.0 million after accumulated currency translation adjustments of \$4.4 million, of which \$1.3 million was recognized for the three months ended March 31, 2018.

4. FINANCIAL INSTRUMENTS

Set out below is a comparison, by category, of the carrying amounts of the Company's financial instruments that are recognized in the condensed interim consolidated statements of financial position:

	Financial instrument classification	Carrying Amount	
		March 31, 2018	December 31, 2017
Financial assets			
Cash	Amortized cost	14,766	28,767
Accounts receivable			
on provisionally priced sales	FVPL	7,453	7,678
Other accounts receivable	Amortized cost	34,139	26,176
Restricted cash	Amortized cost	2,478	2,392
Sabina special warrants (a)	FVPL	4,122	5,239
Publicly traded securities (b)	FVOCI	32,635	-
Publicly traded securities (b)	Available for sale	-	43,172
Forward foreign exchange contracts (d)	Derivatives for cash flow hedges	6,808	6,326
Financial liabilities			
Accounts payable and accrued liabilities	Amortized cost	62,677	60,122
Debt (note 5(a))	Amortized cost	33,000	23,000
Commodity swap and option contracts (c)	Derivatives for cash flow and fair value hedges	6,170	-
Commodity swap and option contracts (c)	Derivatives held for trading	-	15,018

The carrying values of all the financial assets and liabilities measured at amortized cost approximate their fair values as at March 31, 2018 and December 31, 2017.

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(a) Sabina special warrants

In January 2018, the Company purchased additional 2,200,000 common shares of Sabina at a price of \$1.81 (Cdn\$2.26) per share. As at March 31, 2018, DPM held: (i) 25,739,713 common shares of Sabina; and (ii) 5,000,000 Series B special warrants, which will be automatically exercised upon a positive production decision with respect to the Back River project or upon the occurrence of certain other events. Each of the special warrants is exercisable into one common share until 2044.

The fair value of the special warrants was based on the fair value of the Sabina common shares, which was determined based on the closing bid prices as at March 31, 2018 and December 31, 2017.

The fair value of the Sabina special warrants was included in investments at fair value in the condensed interim consolidated statements of financial position.

For the three months ended March 31, 2018, the Company recognized an unrealized loss on the Sabina special warrants of \$1.6 million (2017 – an unrealized gain of \$1.2 million) in other expense (*note 8*) in the condensed interim consolidated statements of earnings (loss).

(b) Publicly traded securities

Publicly traded securities include a portfolio of equity investments in publicly traded mining and exploration companies, comprised primarily of Sabina common shares. These investments were classified as available-for-sale under IAS 39 as management intended to hold them for the medium to long-term. Upon adoption of IFRS 9, the Company elected to present changes in the fair value of all its equity investments previously classified as available-for-sale in other comprehensive income or loss. See *note 2.2* for the changes in accounting policy.

For the three months ended March 31, 2018, the Company recognized unrealized losses on these publicly traded securities of \$14.5 million (2017 – unrealized gains of \$10.1 million) in other comprehensive income (loss) that will not be reclassified subsequently to profit or loss. Had the Company not adopted IFRS 9, these unrealized losses for the three months ended March 31, 2018 would have been presented in other comprehensive income or loss and would have been subsequently reclassified to the consolidated statements of earnings (loss) once realized.

(c) Commodity swap and option contracts

The Company enters into cash settled commodity swap contracts from time to time to swap future contracted monthly average metal prices for fixed metal prices to eliminate or substantially reduce the metal price exposure associated with the time lag between the provisional and final determination of concentrate sales. As at March 31, 2018, the Company had outstanding commodity swap contracts in respect of this exposure as summarized in the table below:

Commodity hedged	Volume hedged	Average fixed price of QP hedges
Payable gold	5,995 ounces	\$1,343.07 /ounce

The Company also enters into cash settled commodity swap and option contracts from time to time to reduce its future metal price exposures. The commodity swap contracts are entered to swap future contracted monthly average prices for fixed prices. The commodity option contracts are entered to provide price protection below a specified “floor” price and price participation up to a specified “ceiling” price. These option contracts are comprised of a series of call options and put options (which when combined create a price “collar”) that are generally structured so as to provide for a zero upfront cash cost.

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As at March 31, 2018, the Company had outstanding commodity swap contracts in respect of its projected copper production as summarized in the table below:

Year of projected production	Volume of copper hedged (pounds)	Average fixed price of Production Hedges (\$/pound)
Balance of 2018	14,375,225	2.62

As at March 31, 2018, the Company had outstanding commodity option contracts in respect of its projected copper production as summarized in the table below:

Year of projected production	Volume of copper hedged (pounds)	Call options sold Average ceiling price (\$/pound)	Put options purchased Average floor price (\$/pound)
Balance of 2018	9,523,958	3.32	2.80

The commodity swap and option contracts did not qualify for hedge accounting previously since component hedging was not permitted under IAS 39. Upon adoption of IFRS 9, the Company is now able to designate the spot component of commodity swap contracts and the intrinsic value of the commodity option contracts in respect of Production Hedges as cash flow hedges and the spot component of commodity swap contracts in respect of QP Hedges as fair value hedges. See *note 2.2* for the changes in accounting policy.

The fair value gain or loss on commodity swap contracts was calculated based on the corresponding London Metal Exchange forward copper prices and New York Commodity Exchange forward gold and silver prices, as applicable. The fair value gain or loss on commodity option contracts was calculated based on the option prices quoted on the Commodity Exchange (a part of the Chicago Mercantile Exchange). As at March 31, 2018, the net fair value loss on all outstanding commodity swap and option contracts was \$6.2 million (December 31, 2017 – \$15.0 million), of which \$0.1 million (December 31, 2017 – \$nil) was included in other current assets and \$6.3 million (December 31, 2017 – \$15.0 million) in accounts payable and accrued liabilities.

For the three months ended March 31, 2018, the Company recognized unrealized gains of \$4.8 million in other comprehensive income (loss) on outstanding commodity swap and option contracts. The Company also recognized a net gain of \$1.0 million for the three months ended March 31, 2018 in revenue on settled contracts. Had the Company not adopted IFRS 9, a net gain of \$5.8 million would have been recognized in other expense (*note 8*) in the condensed interim consolidated statements of earnings (loss).

For the three months ended March 31, 2017, the Company recognized unrealized losses of \$9.9 million on commodity swap and option contracts in other expense (*note 8*). The Company also recognized realized losses on the settled contracts of \$3.1 million in other expense (*note 8*) for the three months ended March 31, 2017.

(d) Forward foreign exchange contracts

The Company enters into forward foreign exchange contracts from time to time to reduce the foreign exchange exposure associated with projected operating expenses and capital expenditures denominated in foreign currencies.

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For the three months ended March 31, 2018 and 2017

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As at March 31, 2018, the Company had outstanding forward foreign exchange contracts in respect of projected foreign denominated operating expenses and capital expenditures over the balance of 2018 as summarized in the table below:

Exposures hedged	Foreign currency hedged (i)	Amount hedged in foreign currency	Average exchange rate Foreign currency/US\$
Operating expenses	South Africa Rand	359,075,750	13.6791
Capital expenditures	Euro	36,151,000	1.1467

(i) The Bulgarian leva is pegged to the Euro and the Namibian dollar is pegged to the South African rand on a 1:1 basis.

The Company continues to designate the spot component of the forward foreign exchange contracts as a cash flow hedge. Upon adoption of IFRS 9, the forward point component of forward foreign exchange contracts is now treated as a separate cost of hedging. See *note 2.2* for the changes in accounting policy.

The fair value gain or loss on these outstanding contracts was calculated based on forward foreign exchange rates quoted in the market. As at March 31, 2018, the fair value gain on all outstanding forward foreign exchange contracts was \$6.8 million (December 31, 2017 – \$6.3 million), which was included in other current assets.

For the three months ended March 31, 2018, the Company recognized unrealized gains of \$0.3 million (2017 – \$2.9 million) in other comprehensive income (loss) on the spot component of the outstanding forward foreign exchange contracts. The Company also recognized realized gains of \$1.0 million (2017 – realized losses of \$1.2 million) for the three months ended March 31, 2018 in cost of sales on the spot component of the settled contracts in respect of foreign denominated operating expenses. The Company also recognized realized gains of \$2.2 million (2017 – \$nil) for the three months ended March 31, 2018 as reductions to mine properties on the spot component of the settled contracts in respect of foreign denominated capital expenditures.

For the three months ended March 31, 2018, the Company recognized \$0.2 million of unrealized gains on the forward point component of the outstanding forward foreign exchange contracts in other comprehensive income (loss) as a deferred cost of hedging. The Company also recognized realized gains of \$0.2 million for the three months ended March 31, 2018 in cost of sales on the forward point component of the settled contracts in respect of foreign denominated operating expenses. The Company also recognized realized losses of \$0.3 million for the three months ended March 31, 2018 as additions to mine properties on the forward point component of the settled contracts in respect of foreign denominated capital expenditures. Had the Company not adopted IFRS 9, a net gain of \$0.1 million would have been recorded in other expense (*note 8*) in the condensed interim consolidated statements of earnings (income).

For the three months ended March 31, 2017, the Company recognized unrealized losses of \$0.5 million in other expense (*note 8*) on the forward point component of the outstanding forward foreign exchange contracts. The Company also recognized realized gains of \$1.4 million for the three months ended March 31, 2017 in other expense (*note 8*) on the forward point component of the settled contracts.

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Fair value hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: based on quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: based on inputs which have a significant effect on fair value that are observable, either directly or indirectly from market data; and
- Level 3: based on inputs which have a significant effect on fair value that are not observable from market data.

The following table illustrates the classification of the Company's financial instruments within the fair value hierarchy as at March 31, 2018 and December 31, 2017:

	Level 1	Level 2	As at March 31, 2018	
			Level 3	Total
Financial assets				
Sabina special warrants	-	-	4,122	4,122
Publicly traded securities	32,635	-	-	32,635
Forward foreign exchange contracts	-	6,808	-	6,808
Financial liabilities				
Commodity swap and option contracts	-	6,170	-	6,170

	Level 1	Level 2	As at December 31, 2017	
			Level 3	Total
Financial assets				
Sabina special warrants	-	-	5,239	5,239
Publicly traded securities	43,172	-	-	43,172
Forward foreign exchange contracts	-	6,326	-	6,326
Financial liabilities				
Commodity swap and option contracts	-	15,018	-	15,018

During the three months ended March 31, 2018 and the year ended December 31, 2017, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

The following table reconciles Level 3 fair value measurements from January 1, 2017 to March 31, 2018:

Balance as at January 1, 2017	2,008
Purchase of other warrants	216
Unrealized gains included in net loss	3,015
Balance as at December 31, 2017	5,239
Unrealized losses included in net earnings (note 8)	(1,117)
Balance as at March 31, 2018	4,122

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5. DEBT

(a) DPM Revolving Credit Facility (“RCF”)

DPM has a committed RCF with a consortium of banks. In April 2018, the RCF was amended to extend the terms of tranche B by an additional year. As at March 31, 2018, the RCF is comprised of a \$45.0 million tranche A maturing in February 2022, a \$150.0 million tranche B maturing in February 2021, and an \$80.0 million tranche C maturing in September 2021 that has quarterly availability reductions of \$4.0 million beginning in the third quarter of 2018.

The RCF bears interest at a spread above LIBOR, which varies between 2.75% and 5.50% depending upon the tranche being drawn and the Company’s funded net debt to adjusted earnings before interest, taxes, depreciation and amortization (“Debt Leverage Ratio”), as defined in the RCF agreement. The RCF is secured by pledges of the Company’s investments in Krumovgrad, Chelopech and Tsumeb and by guarantees from each of these subsidiaries.

The RCF contains financial covenants that require DPM to maintain: (i) a Debt Leverage Ratio below 4.0:1 during the construction of the Krumovgrad gold project (below 3.5:1 thereafter), (ii) a current ratio (including the addition of any unutilized credit within tranche B to current assets) of greater than 1.5:1, and (iii) a minimum net worth of \$500.0 million plus (minus) 50% of ongoing annual net earnings (losses).

As at March 31, 2018, DPM was in compliance with all financial covenants and \$33.0 million (December 31, 2017 – \$23.0 million) was drawn under the RCF.

(b) Other credit agreements and guarantees

Chelopech and Krumovgrad have a \$16.0 million multi-purpose credit facility that matures on November 30, 2018. This credit facility is guaranteed by DPM. As at March 31, 2018, \$5.2 million (December 31, 2017 – \$5.5 million) had been utilized against the multi-purpose revolving facility in the form of letters of credit and letters of guarantee.

Chelopech and Krumovgrad also have a Euro 21.0 million (\$25.9 million) credit facility to support mine closure and rehabilitation obligations. This credit facility matures on November 30, 2018 and is guaranteed by DPM. As at March 31, 2018, \$23.7 million (December 31, 2017 – \$23.0 million) had been utilized against this credit facility in the form of letters of guarantee, which were posted with the Bulgarian Ministry of Energy.

Krumovgrad has a \$5.3 million multi-purpose credit facility that matures on November 30, 2018. This credit facility is guaranteed by DPM. As at March 31, 2018, \$0.1 million (December 31, 2017 – \$0.1 million) had been utilized against the multi-purpose revolving facility in the form of letters of credit and letters of guarantee.

Advances under these facilities bear interest at a rate equal to the one month U.S. Dollar LIBOR plus 2.5%. The letters of credit and guarantee bear a fee of 0.6% based on the amounts issued.

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6. REHABILITATION PROVISIONS

The rehabilitation provisions represent the present value of rehabilitation costs relating to the Chelopech, Tsumeb and Krumovgrad sites, which are expected to be incurred between 2018 and 2041.

Key assumptions used in determining the rehabilitation provisions were as follows:

	March 31, 2018	December 31, 2017
Discount period		
Chelopech	2018 - 2029	2018 - 2029
Tsumeb	2021 - 2039	2021 - 2039
Krumovgrad	2019 - 2041	2019 - 2041
Local discount rate		
Chelopech/Krumovgrad	2.4%	2.4%
Tsumeb	9.9%	10.1%
Local inflation rate		
Chelopech/Krumovgrad	2.3%	2.3%
Tsumeb	5.2%	5.2%

Changes to rehabilitation provisions were as follows:

	Chelopech	Tsumeb	Krumovgrad	Total
Balance as at January 1, 2017	15,281	14,709	306	30,296
Change in cost estimate	-	-	2,773	2,773
Remeasurement of provisions (a)	1,824	1,515	(180)	3,159
Accretion expense	288	1,504	21	1,813
Balance as at December 31, 2017	17,393	17,728	2,920	38,041
Change in cost estimate	-	-	664	664
Remeasurement of provisions (a)	401	1,403	84	1,888
Accretion expense	106	446	17	569
Balance as at March 31, 2018	17,900	19,577	3,685	41,162

(a) Remeasurement of provisions resulted from the changes in discount rates, inflation rates and foreign exchange rates at each site.

7. SHARE BASED COMPENSATION PLANS

Restricted Share Unit ("RSU") plan

DPM has an RSU Plan for directors, certain employees and eligible contractors of DPM and its wholly-owned subsidiaries in consideration of past services to the Company. The Board of Directors administers this plan and determines the grants.

(a) Non-performance based RSUs

These RSUs vest equally over a three-year period and are paid in cash based on the Market Price of DPM's publicly traded common shares on the entitlement date or dates, which should not be later than December 31 of the year that is three years after the year of service for which the RSUs are granted, as determined by the Board of Directors in its sole discretion.

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The following is a summary of the RSUs granted for the periods indicated:

	Number of RSUs	Amount
Balance as at January 1, 2017	2,759,980	2,486
RSUs granted	1,667,400	3,189
RSUs redeemed	(1,190,339)	(2,453)
RSUs forfeited	(241,604)	(275)
Mark-to-market adjustments		1,194
Balance as at December 31, 2017	2,995,437	4,141
RSUs granted	1,670,400	724
RSUs forfeited	(16,500)	(26)
Mark-to-market adjustments		606
Balance as at March 31, 2018	4,649,337	5,445

As at March 31, 2018, there was \$5.4 million (December 31, 2017 – \$2.2 million) of RSU expenses remaining to be charged to net earnings in future periods relating to the RSU plan.

(b) Performance share units (“PSUs”)

Under the RSU Plan, the Board of Directors may, at its sole discretion, (i) grant RSUs with a performance-based component, referred to as PSUs, subject to performance conditions to be achieved by the Company, and (ii) determine the entitlement date or dates of such PSUs. These PSUs vest after three years and are paid in cash based on the Market Price of DPM’s publicly traded common shares, subject to established performance criteria, on the entitlement date or dates, which shall not be later than December 31 of the year that is three years after the year of service for which the PSUs were granted, as determined by the Board of Directors in its sole discretion.

The following is a summary of the PSUs granted for the years indicated:

	Number of PSUs	Amount
Balance as at January 1, 2017	1,161,800	640
PSUs granted	654,850	1,007
PSUs forfeited	(104,300)	(83)
Mark-to-market adjustments		88
Balance as at December 31, 2017	1,712,350	1,652
PSUs granted	574,500	267
Mark-to-market adjustments		637
Balance as at March 31, 2018	2,286,850	2,556

As at March 31, 2018, there was \$2.6 million (December 31, 2017 – \$1.5 million) of expenses remaining to be charged to net earnings in future periods relating to these PSUs.

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Deferred Share Unit (“DSU”) plan

DPM has a DSU Plan for directors and certain employees.

Under the employee DSU Plan, grants to employees of the Company are determined by the Board of Directors, or the compensation committee, in lieu of a cash bonus. The DSUs are redeemable in cash based on the Market Price of DPM’s publicly traded common shares on the date the employee ceases to be employed by DPM or a subsidiary thereof.

Under the director DSU Plan, directors may receive a portion of their annual compensation in the form of DSUs. The DSUs are redeemable in cash based on the Market Price of DPM’s publicly traded common shares at any time before the end of the year following the year in which the director ceases to be a director of DPM or a subsidiary thereof.

The following is a continuity of the DSUs for the periods indicated:

	Number of DSUs	Amount
Balance as at January 1, 2017	1,255,387	2,079
DSUs granted	263,524	565
DSUs redeemed	(178,875)	(363)
Mark-to-market adjustments		919
Balance as at December 31, 2017	1,340,036	3,200
DSUs granted	70,382	168
Mark-to-market adjustments		180
Balance as at March 31, 2018	1,410,418	3,548

DPM Stock option plan

The Company has established an incentive stock option plan for the directors, selected employees and consultants. Pursuant to the plan, the exercise price of the option cannot be less than the market price of DPM’s common shares on the trading date preceding the effective date of the option grant. The aggregate number of shares that can be issued from treasury under this plan is 12,500,000. Options granted vest equally over a three-year period and expire five years from the date of grant.

During the three months ended March 31, 2018, the Company granted 774,938 (2017 – 894,513) stock options with a fair value of \$1.1 million (2017 – \$1.1 million). The estimated value of the options granted will be recognized as an expense in the condensed interim consolidated statements of earnings (loss) and an addition to contributed surplus in the condensed interim consolidated statements of changes in shareholders’ equity over the vesting period. The Company recorded stock option expenses of \$0.3 million (2017 – \$0.4 million) for the three months ended March 31, 2018 under this stock option plan.

As at March 31, 2018, there was \$1.6 million (December 31, 2017 – \$0.8 million) of share based compensation cost remaining to be charged to net earnings in future periods relating to stock option grants. The fair value of options granted was estimated using the Black-Scholes option pricing model. The expected volatility is estimated based on the historic average share price volatility. The inputs used in the measurement of the fair values at the time the options were granted were as follows:

	March 31, 2018	March 31, 2017
Five year risk free interest rate	1.9%	1.0%
Expected life in years	4.75	4.75
Expected volatility	68.2%	68.5%
Dividends per share	-	-

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The following is a stock option continuity for the periods indicated:

	Number of options	Weighted average exercise price per share (Cdn\$)
Balance as at January 1, 2017	5,647,653	4.44
Options granted	996,065	2.82
Options exercised	(51,334)	2.63
Options forfeited	(122,199)	2.69
Options expired	(1,004,782)	7.71
Balance as at December 31, 2017	5,465,403	3.60
Options granted	774,938	3.28
Options expired	(667,700)	7.88
Balance as at March 31, 2018	5,572,641	3.04

The following lists the options outstanding and exercisable as at March 31, 2018:

Range of exercise prices per share (Cdn\$)	Options outstanding			Options exercisable	
	Number of options outstanding	Weighted average remaining years	Weighted average exercise price per share (Cdn\$)	Number of options exercisable	Weighted average exercise price per share (Cdn\$)
2.05 - 2.97	3,552,803	2.80	2.69	2,490,046	2.73
3.28 - 3.96	2,019,838	2.52	3.66	1,244,900	3.89
2.05 - 3.96	5,572,641	2.70	3.04	3,734,946	3.12

8. OTHER EXPENSE

	Three months ended March 31,	
	2018	2017
Net gains (losses) on Sabina special warrants (note 4(a))	(1,117)	1,177
Net losses on commodity swap and option contracts (note 4(c))	-	(13,008)
Net gains on forward foreign exchange contracts (note 4(d))	-	880
Net foreign exchange losses	(1,146)	(1,886)
Interest income	50	65
Other income (expense), net	(919)	211
	(3,132)	(12,561)

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9. EARNINGS (LOSS) PER SHARE

	Three months ended March 31,	
	2018	2017
Net earnings (loss) attributable to common shareholders	2,707	(12,518)
Basic weighted average number of common shares	178,492,566	173,681,481
Effect of stock options	390,016	-
Diluted weighted average number of common shares	178,882,582	173,681,481
Basic earnings (loss) per share	0.02	(0.07)
Diluted earnings (loss) per share	0.02	(0.07)

10. RELATED PARTY TRANSACTIONS

(a) Key management remuneration

The Company's related parties include its key management. Key management includes directors (executive and non-executive), the Chief Executive Officer ("CEO") and the Executive and Senior Vice Presidents reporting directly to the CEO.

The remuneration of the key management of the Company recognized in the condensed interim consolidated statements of earnings (loss) for the three months ended March 31, 2018 and 2017 was as follows:

	Three months ended March 31,	
	2018	2017
Salaries, management bonuses and director fees	1,297	1,174
Other benefits	100	99
Share based compensation	1,572	1,821
Total remuneration	2,969	3,094

(b) Transaction with a director

In January 2018, the Company purchased 2,200,000 common shares of Sabina from a director of the Company at the market price of \$1.81 (Cdn\$2.26) per share for a total cost of \$4.0 million (Cdn\$5.0 million) to maintain a 10.2% of ownership interest in Sabina (*note 4(a)*).

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

11. SUPPLEMENTARY CASH FLOW INFORMATION

(a) Items not affecting cash and other adjustments

	Three months ended March 31,	
	2018	2017
Depreciation and amortization	14,427	15,895
Net interest expense	1,304	1,571
Accretion expense related to rehabilitation provisions	569	427
Share based compensation expense	337	402
Net losses (gains) on Sabina special warrants	1,117	(1,177)
Net (gains) losses on commodity swap and option contracts	(1,014)	13,008
Net (gains) losses on forward foreign exchange contracts	(1,172)	306
Other, net	234	(48)
	15,802	30,384

(b) Changes in non-cash working capital

	Three months ended March 31,	
	2018	2017
(Increase) decrease in accounts receivable and other assets	(8,585)	15,620
(Increase) decrease in inventories	(7,073)	1,685
Increase (decrease) in accounts payable and accrued liabilities	6,990	(1,182)
Increase in other liabilities	1,267	1,463
	(7,401)	17,586

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12. CHANGES IN ACCUMULATED OTHER COMPREHENSIVE INCOME

	Three months ended March 31,	
	2018	2017
Cash flow hedge reserve		
Balance at beginning of period	5,966	(6,924)
Unrealized gains on forward foreign exchange contracts designated as cash flow hedges, net of income taxes	3,298	1,720
Realized (gains) losses on forward foreign exchange contracts transferred to net earnings (loss), net of income taxes	(959)	1,179
Realized gains on forward foreign exchange contracts transferred to Mine Properties, net of income taxes	(1,975)	-
Unrealized gains on commodity swap and option contracts transferred to net earnings (loss), net of income taxes	3,990	-
Realized gains on commodity swaps and option contracts transferred to net earnings (loss), net of income taxes	(550)	-
Balance at end of period	9,770	(4,025)
Deferred cost of hedge reserve		
Balance at beginning of period	-	-
Impact of adoption of IFRS 9 (note 2.2)	(36)	-
Adjusted balance at beginning of period	(36)	-
Deferred cost of hedging on forward foreign exchange contracts, net of income taxes	134	-
Cost of hedging on forward foreign exchange contracts transferred to net earnings (loss), net of income taxes	(212)	-
Cost of hedging on forward foreign exchange contracts transferred to Mine Properties, net of income taxes	305	-
Deferred cost of hedging on commodity swap and option contracts, net of income taxes	1,149	-
Cost of hedging on commodity swaps and option contracts transferred to net earnings (loss), net of income taxes	(295)	-
Balance at end of period	1,045	-
Unrealized gains on publicly traded securities		
Balance at beginning of period	35,457	10,867
Impact of adoption of IFRS 9 (note 2.2)	(20,645)	-
Adjusted balance at beginning of period	14,812	10,867
Unrealized gains (losses) on publicly traded securities, net of income taxes	(13,331)	10,149
Balance at end of period	1,481	21,016
Accumulated currency translation adjustments		
Balance at beginning of period	397	(2,583)
Currency translation adjustments	1,606	-
Balance at end of period	2,003	(2,583)
Accumulated other comprehensive income	14,299	14,408

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

13. COMMITMENTS AND OTHER CONTINGENCIES

(a) Commitments

The Company had the following minimum contractual commitments as at March 31, 2018:

	up to 1 year	1 - 5 years	over 5 years	Total
Capital commitments	48,252	-	-	48,252
Purchase commitments	14,003	13,090	8	27,101
Operating lease payments	1,381	2,681	888	4,950
Total commitments	63,636	15,771	896	80,303

As at March 31, 2018, Tsumeb had approximately \$99.7 million (December 31, 2017 – \$112.2 million) of recoverable third party in-process secondary materials, which it is obligated to process and return, generally in the form of blister, to Louis Dreyfus Company Metals Suisse (“LD”) pursuant to a tolling agreement.

In July 2017, the Company and LD agreed to amend the existing tolling agreement to provide for, among other things, lower stockpile interest deductions on excess secondary materials, specified quarterly targeted reductions designed to eliminate excess secondary materials representing at that time approximately \$90.0 million over a period that extends to December 31, 2020, the purchase of secondary materials in excess of established quarterly targeted levels, and the extension of the tolling agreement by one year. During the three months ended March 31, 2018, the purchase of secondary materials was not required. As at March 31, 2018, the value of excess secondary materials was approximately \$72.9 million.

(b) Other

The Company is involved in legal proceedings, from time to time, arising in the ordinary course of its business. It is not expected that any material liability will arise from current legal proceedings or have a material adverse effect on the Company’s future business, operations or financial condition.

14. OPERATING SEGMENT INFORMATION

Operating segments are components of an entity whose operating results are regularly reviewed by the chief operating decision maker in deciding how to allocate resources and in assessing performance and for which separate financial information is available.

The Company has two operating segments from continuing operations – Chelopech in Bulgaria and Tsumeb in Namibia. The nature of their operations, products and services are described in *note 1, Corporate Information*. These segments are organized predominantly by the products and services provided to customers and geography of the businesses. The Corporate and Other segment includes corporate, exploration, development projects, the results of MineRP and other income and cost items that do not pertain directly to an operating segment. There are no significant inter-segment transactions that have not been eliminated on consolidation.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

The following table summarizes the relevant information by segment for the three months ended March 31, 2018 and 2017:

	Three months ended March 31, 2018			
	Chelopech	Tsumeb	Corporate & Other	Total
Revenue (a)	45,873	36,829	4,186	86,888
Earnings (loss) before income taxes	22,040	(4,654)	(11,751)	5,635
Capital expenditures	1,639	4,340	24,455	30,434

	Three months ended March 31, 2017			
	Chelopech	Tsumeb	Corporate & Other	Total
Revenue (a)	52,038	22,630	-	74,668
Earnings (loss) before income taxes	9,528	(12,739)	(8,303)	(11,514)
Capital expenditures	2,352	4,463	15,169	21,984

(a) Chelopech's revenues were generated from the sale of concentrate, Tsumeb's revenues were generated from processing concentrate, and revenues for Corporate and Other were generated from sale of software licenses and delivery of consulting services by MineRP.

The following table summarizes the Company's revenue recognized for the three months ended March 31, 2018 and 2017:

	Three months ended March 31,	
	2018	2017
Revenue recognized at a point in time from:		
Sale of concentrate	45,765	48,069
Processing concentrate	36,829	22,630
Sale of software licenses	251	-
Mark-to-market price adjustments on provisionally priced sales	108	3,969
Revenue recognized over time from:		
Software services	3,935	-
Total revenue	86,888	74,668

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended March 31, 2018 and 2017

(unaudited, in thousands of U.S. dollars, unless otherwise indicated)

The following table summarizes the total assets and total liabilities by segment as at March 31, 2018 and December 31, 2017:

	As at March 31, 2018			
	Chelopech	Tsumeb	Corporate & Other	Total
Total current assets	48,784	25,804	25,902	100,490
Total non-current assets	200,390	247,001	312,518	759,909
Total assets	249,174	272,805	338,420	860,399
Total liabilities	42,783	48,938	138,574	230,295

	As at December 31, 2017			
	Chelopech	Tsumeb	Corporate & Other	Total
Total current assets	45,101	23,693	29,783	98,577
Total non-current assets	206,537	247,235	292,401	746,173
Total assets	251,638	270,928	322,184	844,750
Total liabilities	51,245	44,533	115,484	211,262