

MINERA IRL LIMITED

ANNUAL REPORT AND ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2019



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CHAIRMAN'S STATEMENT

During 2019 the Corihuarmi mine produced 22,684 ounces of gold, in line with the 22,500 ounces forecasted. It is worth noting that Minera IRL SA, the Company's subsidiary operating the Corihuarmi Mine, will be paying approximately US\$700,000 as workers participation compensation from its taxable income.

The arbitration process with COFIDE ended with an Arbitration Award which awarded damages of US\$34.2 million to the Company. Currently the Company continues holding conversations with COFIDE within the frame of the Memorandum of Understanding signed on 31 December 2019 with the objective to reach an agreement in settlement of the obligations imposed by the Arbitration Award as well the Bridge Loan repayment. I firmly believe we will reach this agreement and that an alternative source of funds to repay the debt with COFIDE will be obtained. However, if the parties are not able to finalize such agreement and it is not possible to obtain an alternative source of funds to refinance this debt the Company may have to relinquish its ownership of the subsidiary, Campaña Minera Kuri Kullu S.A. and therefore the Ollachea Project.

The Memorandum of Understanding with COFIDE expires on 31 March 2020 and, as at the date of these financial statements, no agreement has yet been reached. The Board remains committed to reaching an agreement before 31 March 2020, although an extension to the Memorandum of Understanding remains one option. In the event that neither an agreement is reached nor an extension is in place on or before 31 March 2020, the Board has already considered and taken legal advice on the different options available to it under Peruvian and US law.

Corona/COVID-19 is a developing situation and as of 27 March 2020, the assessment of this situation will need continued attention and will evolve over time. In our view, consistent with many others in our industry, COVID-19 is considered to be a non-adjusting post statement of financial position event and no adjustment is made in the financial statements as a result.

The rapid development and fluidity of the COVID-19 virus make it difficult to predict the ultimate impact at this stage. In line with most experts, we believe that the impact of the virus outbreak will be material on the general economy and some central banks have already started to act by reducing interest rates and taking other measures. Undoubtedly, this will have some implications for the operations of the Group in the future, for example through impacting the supply chain to and from the mine and volatility in gold prices. Management is in the process of assessing the impact of COVID-19 on the Group, however, given the fluidity and significant volatility of the situation, it is not possible to quantify the impact at this stage.

On behalf of the Board of Directors I thank each one of our shareholders, directors and employees for their perseverance and trust. Our goal for 2020 is to keep the Corihuarmi Mine operating efficiently, finalize the negotiation process with COFIDE and obtain new financing for the Ollachea Project.



Gerardo Perez
Chairman
Minera IRL Limited
27 March 2020

DIRECTORS' REPORT

The directors have pleasure in presenting their report and the audited financial statements for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

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

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

RESULTS AND DIVIDENDS

The total comprehensive loss after tax for the year was \$11,487,000 (2018: \$5,980,000). No dividend was paid during the year and no final dividend is proposed. A loss of \$11,487,000 (2018: \$5,980,000) is to be transferred to retained earnings.

DIRECTORS

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

| Director | Ordinary shares of no par value | |
|-------------|---------------------------------|-------------|
| | 31-Dec-2019 | 31-Dec-2018 |
| G Perez | 100 | 100 |
| D Benavides | 2,066,147 | 2,066,147 |
| M Iannacone | - | - |
| J Lema | - | - |
| S Valverde | - | - |

DIRECTORS' AND OFFICERS' LIABILITY INSURANCE

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

DONATIONS

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

SUBSTANTIAL SHAREHOLDERS

As at 27 March 2020, the Group has been notified of the following substantial shareholdings in addition to those of the directors:

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

SUBSEQUENT EVENTS

Details of subsequent events between the end of the period date and the date of filing of the Directors' report are disclosed in Note 25 to the consolidated financial statements.

DISCLOSURE OF INFORMATION

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

By order of the Board



Gerardo Perez
Chairman
Minera IRL Limited
27 March 2020

DIRECTORS' RESPONSIBILITIES STATEMENT

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

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

In preparing these financial statements the directors are required to:

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

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

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

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

Opinion

We have audited the financial statements of Minera IRL Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2019 which comprise the Consolidated and Parent Company Statements of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Statements of Changes in Equity, the Consolidated and Parent Company Statements of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and parent company's affairs as at 31 December 2019 and of the group's and company's loss for the year then ended; and
- have been properly prepared in accordance with IFRSs as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 1 in the financial statements concerning the group's and parent company's ability to continue as a going concern. In March 2017 the group was informed by COFIDE that it had revoked the mandate to structure the senior debt for the development of the Ollachea Gold Project, and required repayment of the US\$70 million Bridge Loan in June 2017. The group suspended any enforcement proceedings by COFIDE regarding repayment of the Bridge Loan, and entered into an arbitration process. The group submitted a claim for damages against COFIDE and on 13 September 2019 the Court of Arbitration issued its Final Arbitration Award in favour of the group. The Award provides that COFIDE must pay to the Company an aggregate amount of \$34.2 million and that COFIDE is the creditor of the Bridge Loan. COFIDE first appealed the Award before the Court of Arbitration, which was denied, and secondly ask the Peruvian Judicial Courts for an annulment of the Award. The two parties are continuing to engage under a Memorandum of Understanding, which expires on 31 March 2020, but no agreement has yet been reached at the date of this report. The group continues to seek an alternative source of funds to enable repayment of the Bridge Loan plus interest.

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

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

| Key Audit Matter | How the scope of our audit responded to the key audit matter |
|--|---|
| <p>Carrying value and assessment of impairment of intangible assets and mining assets & deferred development costs, including the eligibility of expenditure capitalised under IFRS 6. (group only)</p> <p>The carrying value of the Ollachea Gold Project within intangible assets is \$143.651m. The carrying value of Corihuarmi mining assets & deferred development costs within Property, Plant and Equipment is \$5.172m and within intangible assets is \$1.044m.</p> <p>There is a risk that the carrying value of the assets are impaired and that additional exploration expenditure capitalised during 2019 is not in accordance with IFRS 6.</p> <p>Recoverability is dependent on upon the discovery of economically recoverable ore reserves, continuing compliance with the terms of relevant agreements, the ability of the group to obtain the necessary financing to complete development of ore reserves, future profitable production or profitable disposal of the area of interest.</p> <p>The carrying value of the Ollachea Gold Project is assessed in conjunction with the following criteria:</p> <ul style="list-style-type: none"> ▪ The Group has sufficient title to the exploration licence in respect of the area known as Ollachea. ▪ The Group has planned/budgeted further substantive expenditure for mineral resource in the area. ▪ Exploration work undertaken to date has indicated the existence of commercially viable quantities of mineral resource, supported by an independently prepared Definitive Feasibility Study. ▪ The carrying value of the exploration asset is likely to be fully recovered from successful development or by sale. | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> ▪ A review of the cash flow forecast and impairment assessments prepared by management in relation to the Corihuarmi Mine and Ollachea Project, with a focus on the key assumptions and sensitivity to change. ▪ An evaluation of whether the model used to calculate value in use complies with the requirements of IAS 36 ‘Impairment of Assets’. ▪ An assessment of the accuracy of management budgets and forecasts used in the prior year value in use calculations to actual results achieved in the current year. ▪ Validating the key assumptions and inputs applied and agreeing, where applicable, to independently prepared reports. ▪ Subjecting the key assumptions to sensitivity analysis. ▪ Substantive testing of capitalised expenditure during 2019. <p>As disclosed in note 1 to the financial statements, the group is currently trying to reach an agreement with COFIDE under a Memorandum of Understanding, following the revocation of the mandate to structure the senior debt for the development of the Ollachea Gold Project, the award of damages to the group under the Final Arbitration hearing, and is seeking new sources of financing to be able to repay the Bridge Loan and obtain the necessary investment to develop the Ollachea Gold Project.</p> <p>Failure to reach agreement with COFIDE on or before the expiry of the Memorandum of Understanding on 31 March 2020, or failure to secure new financing on acceptable terms, could</p> |

| Key Audit Matter | How the scope of our audit responded to the key audit matter |
|--|--|
| <ul style="list-style-type: none"> ▪ The ability to reach agreement with COFIDE regarding repayment of the Bridge Loan plus interest, in conjunction with damages awarded to the group under the Arbitration Award. <p>The carrying value of the Corihuarmi mine is assessed for impairment in accordance with IAS 36.</p> | <p>result in relinquishing control of the subsidiary, Compania Minera Kurri Kullu S.A. and therefore the Ollachea Gold Project, together with full impairment to carrying values at that date.</p> |
| <p>Recognition, valuation and disclosure of capital commitments, contingent liabilities and provisions. (group and company)</p> <p>The Group has a rehabilitation provision in respect of the Corihuarmi Mine and the Ollachea Gold Project exploration tunnel, in the event the Group does not progress into commercial production regarding the latter. Management uses their judgement and experience to provide for and amortise the estimated costs for decommissioning and site rehabilitation over the life of the mine. The ultimate cost of decommissioning and site rehabilitation are uncertain and can vary significantly. The Group uses an external expert to assist in the calculation, in conjunction with its own team of geologists.</p> <p>In addition, there are a number of additional contingent liabilities disclosed in the financial statements e.g. environmental law obligations, tax assessments and supply contracts (refer note 23).</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> ▪ Reviewing contracts, Board minutes and other relevant documents to assess the status of the contingencies/provisions and ensure the accuracy and completeness of disclosures. ▪ Reviewing management experts reports and verify the key estimates and assumptions to supporting documentation or through benchmarking, as applicable. ▪ An assessment of the qualifications and independence of management's experts. ▪ Testing the method of measurement and assumptions used by management. ▪ Discussions with management and legal counsel. |
| <p>Revenue recognition (group only)</p> <p>The accounting policy for revenue recognition is set out in note 1 to the financial statements. Under ISA 240 there is a presumption that revenue recognition is a fraud risk.</p> | <p>Our audit procedures included:</p> <ul style="list-style-type: none"> ▪ Substantive test of detail on a sample of transactions to ensure revenue was accurately recorded and recognised in accordance with the accounting policy. ▪ Detailed analytical review procedures. ▪ Cut-off procedures to ensure revenue recognised relates to the accounting period. ▪ An on site review of component auditor audit files and responses to our component auditor instructions. |

Other information

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

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

We have nothing to report in this regard.

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

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

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

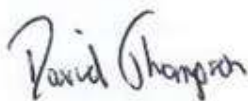
- Identify and assess the risks of material misstatement of the group and parent company financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's or company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of managements' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's or the parent company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group or the parent company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the group and parent company financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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



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

27 March 2020

CONSOLIDATED STATEMENT OF TOTAL COMPREHENSIVE INCOME
For the years ended 31 December 2019 and 2018

| | Notes | 2019 US\$000 | 2018 US\$000 |
|--|-------|-----------------|-----------------|
| Revenue from contracts with customers | 3 | 31,754 | 28,939 |
| Cost of sales | 4 | (24,886) | (23,873) |
| Gross Profit | | 6,868 | 5,066 |
| Administration expenses | 4 | (4,490) | (5,279) |
| Exploration costs | | (344) | (238) |
| (Loss) Gain on disposal of property, plant and equipment | | (63) | 4 |
| Write-off of assets | 10,12 | (1,253) | (173) |
| Operating Profit (Loss) | | 718 | (620) |
| Finance expense | 6 | (7,994) | (7,640) |
| Gain on adjustment of mine closure provision | 20 | - | 3,351 |
| Loss before tax | | (7,276) | (4,909) |
| Income tax expense | 9 | (4,211) | (1,071) |
| Loss for the year attributable to the equity shareholders of the parent | | (11,487) | (5,980) |
| Total comprehensive loss for the year attributable to the equity shareholders of the parent | | (11,487) | (5,980) |
| | | | |
| Earnings per ordinary share (US cents) | | | |
| Basic and diluted | 8 | (5.0) | (2.6) |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2019 and 2018

| | Notes | 2019 US\$000 | 2018 US\$000 |
|---|-------|-----------------|-----------------|
| Assets | | | |
| Property, plant and equipment | 10 | 7,872 | 9,829 |
| Right-of-use assets | 11 | 3,772 | - |
| Intangible assets | 12 | 144,695 | 143,393 |
| Other receivables and prepayments | 13 | 8,128 | 7,839 |
| Total non-current assets | | 164,467 | 161,061 |
| Inventory | 14 | 2,262 | 2,181 |
| Other receivables and prepayments | 13 | 1,641 | 1,441 |
| Current tax recoverable | | - | 127 |
| Cash and cash equivalents | 15 | 2,791 | 2,299 |
| Total current assets | | 6,694 | 6,048 |
| Total assets | | 171,161 | 167,109 |
| Equity | | | |
| Share capital | 16 | 159,012 | 159,012 |
| Share option reserve | 16 | 433 | 433 |
| Accumulated losses | | (102,864) | (91,377) |
| Total equity attributable to the equity shareholders of the parent | | 56,581 | 68,068 |
| Liabilities | | | |
| Trade and other payables | 21 | 977 | - |
| Lease liabilities | 19 | 1,057 | - |
| Provisions | 20 | 4,456 | 3,800 |
| Total non-current liabilities | | 6,490 | 3,800 |
| Finance lease liabilities | 17 | - | 147 |
| Interest bearing loans | 18 | 89,500 | 82,992 |
| Trade and other payables | 21 | 10,710 | 12,102 |
| Income tax payable | | 2,710 | - |
| Lease liabilities | 19 | 5,170 | - |
| Total current liabilities | | 108,090 | 95,241 |
| Total liabilities | | 114,580 | 99,041 |
| Total equity and liabilities | | 171,161 | 167,109 |

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



Gerardo Pérez
Chairman
27 March 2020



Carlos Ruiz de Castilla
Chief Financial Officer
27 March 2020

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the years ended 31 December 2019 and 2018

| | Note | Share capital US\$000 | Share option reserve US\$000 | Accumulated losses US\$000 | Total US\$000 |
|--|------|--------------------------|------------------------------------|----------------------------------|------------------|
| Balance at 1 January 2018 | | 159,012 | 479 | (85,443) | 74,048 |
| Loss for the year | | - | - | (5,980) | (5,980) |
| Total comprehensive loss | | - | - | (5,980) | (5,980) |
| Expiry/lapse of share options | 16 | - | (46) | 46 | - |
| Total transactions with owners, recognised directly in equity | | - | (46) | 46 | - |
| Balance 31 December 2018 | 16 | 159,012 | 433 | (91,377) | 68,068 |

| | Note | Share capital US\$000 | Share option reserve US\$000 | Accumulated losses US\$000 | Total US\$000 |
|---------------------------|------|--------------------------|------------------------------------|----------------------------------|------------------|
| Balance at 1 January 2019 | 16 | 159,012 | 433 | (91,377) | 68,068 |
| Loss for the year | | - | - | (11,487) | (11,487) |
| Total comprehensive loss | | - | - | (11,487) | (11,487) |
| Balance 31 December 2019 | 16 | 159,012 | 433 | (102,864) | 56,581 |

CONSOLIDATED CASH FLOW STATEMENT
For the years ended 31 December 2019 and 2018

| | Note | 2019 US\$000 | 2018 US\$000 |
|---|-----------|-----------------|-----------------|
| Cash flows from operating activities | | | |
| (Loss) / profit before tax | | (7,276) | (4,909) |
| Finance expense | 6 | 7,994 | 7,640 |
| Adjustment to mine closure provision | 20 | - | (3,351) |
| Depreciation | 10,11 | 8,193 | 3,015 |
| Loss (Gain) on disposal of property, plant and equipment | | 63 | (4) |
| Write-off of assets | 10,12 | 1,253 | 173 |
| (Increase) / decrease in inventory | | (81) | 588 |
| (Increase) / decrease in other receivables and prepayments | | (483) | 225 |
| Increase in trade and other payables | | 116 | 1,145 |
| Payment of mine closure costs | 20 | (233) | (48) |
| Cash generated from operations | | 9,546 | 4,474 |
| Income tax paid | | (1,364) | (175) |
| Net cash from operating activities | | 8,182 | 4,299 |
| Cash flows from investing activities | | | |
| Acquisition of property, plant and equipment | 10 | (3,255) | (1,796) |
| Deferred exploration and development expenditures | 12 | (1,371) | (2,718) |
| Disposal of property, plant and equipment | | 710 | 4 |
| Net cash outflow from investing activities | | (3,916) | (4,510) |
| Cash flows from financing activities | | | |
| Payment of lease liabilities | 19 | (3,369) | - |
| Payment of finance expenses | | (273) | (236) |
| Payment of finance lease liabilities | 17 | (132) | (530) |
| Net cash outflow from financing activities | | (3,774) | (766) |
| Net increase (decrease) in cash and cash equivalents | | 492 | (977) |
| Cash and cash equivalents at beginning of year | | 2,299 | 3,276 |
| Cash and cash equivalents at end of year | 15 | 2,791 | 2,299 |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

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

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

The consolidated financial statements of the Group for the year ended 31 December 2019 comprise the Group and its subsidiaries (together referred to as the “Group”).

The financial statements were authorised for issue by the directors on 27 March 2020.

Statement of Compliance

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

New and amended standards

Interpretations and amendments to published standards effective in 2019

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

- IFRS 16 – Leases
- Annual Improvement to IFRS Standards 2015-2017 Cycle
- IFRIC Interpretation 23 – Uncertainty over Income Tax Treatments

Effective 1 January 2019, the Group adopted the provisions of IFRS 16 Leases on a modified retrospective basis, recognising the cumulative effect of initial application to opening retained earnings. The Group has not restated comparatives for the 2018 reporting period, as permitted under the transition provisions in the standard. At transition, for leases previously classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group’s incremental borrowing rate as of 1 January 2019. The Group used the following practical expedients permitted by the standard in applying IFRS 16 for the first time:

- Applied the exemption not to recognise right of use assets and liabilities for leases with less than 12 months of remaining lease term;
- Apply a single discount rate to a portfolio of leases with similar characteristics; and
- Exclude initial direct costs from measuring the right of asset at the date of initial application.

Notes 11 and 19 show the effect of the change in accounting policy on the statement of financial position on 1 January 2019. The net impact on accumulated losses at that date was nil. The adoption of IFRS 16 did not have a material impact on leases previously recorded as finance leases.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Standards, amendments and interpretations to published standards not yet effective

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

- Amendments to References to the Conceptual Framework in IFRS Standards (effective 1 January 2020)
- Amendments to IAS 1 and IAS 8: Definition of Material (effective 1 January 2020)
- Amendments to IFRS 3: Business Combinations (effective 1 January 2020)

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

Basis of Preparation and Going Concern

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

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

At 31 December 2019, the Group had a working capital deficit of \$101,396,000 (defined as current assets less current liabilities).

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

In March 2017 COFIDE terminated the letter of mandate without providing any reason for their decision. The Bridge Loan was due for repayment in June 2017. The Bridge Loan is secured by the Ollachea Project's assets, mining reserves, mining concessions and rights and a pledge of the shares of the Group's subsidiary, Compañía Minera Kuri Kullu S.A., which holds the Ollachea Project. The assets of the Corihuarmi Mine are not included as a guarantee of the Bridge Loan.

On 20 June 2017 the Group announced it had filed a request for an arbitration against COFIDE with the Arbitration Centre of the Lima Chamber of Commerce.

On 16 September 2019 the Company announced that the Court of Arbitration had issued its Arbitration Award. The Award provides that COFIDE must pay an aggregate amount of \$34.2 million for damages. The Court of Arbitration declared that it did not have jurisdiction to require repayment of the Bridge Loan because the Bridge Loan facility expressly provides that it is subject to the jurisdiction of the courts of New York, United States. No amount for the damages awarded of \$34.2 million has been recognised in the 2019 financial statements given the uncertainty at the year-end over its recoverability.

On 31 December 2019 the Group signed a Memorandum of Understanding ("MOU") with COFIDE which is valid until 31 March 2020. During this period both the collection of damages by the Group and the collection of the debt and/or interests by COFIDE remain suspended. The objective of the MOU is to allow both parties to reach an agreement in settlement of the obligations imposed by the Arbitration Award announced on 16 September 2019 as well as related matters, including the Bridge Loan repayment. The Group is aware that COFIDE has filed a lawsuit for annulment of the Arbitration Award. The MOU provides that COFIDE will take the necessary steps to desist from this legal process if the parties reach a definitive agreement within the timeframe of the MOU.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Notwithstanding that there can be no guarantee that an alternative source of funding will be secured within the required timescale or on acceptable terms, the Directors consider that the agreement described in previous paragraphs will be finalized and that alternative funding will be obtained to repay the Bridge Loan plus interest and to develop the Ollachea Project. The cash generated from gold production at the Corihuarmi Mine is required to fund the working capital requirements of the Group in the meantime.

The Memorandum of Understanding with COFIDE expires on 31 March 2020 and, as at the date of these financial statements, no agreement has yet been reached. The Board remains committed to reaching an agreement before 31 March 2020, although an extension to the Memorandum of Understanding remains one option. In the event that neither an agreement is reached nor an extension is in place on or before 31 March 2020, the Board has already considered and taken legal advice on the different options available to it under Peruvian and US law.

The rapid development and fluidity of the COVID-19 virus make it difficult to predict the ultimate impact at this stage. In line with most experts, we believe that the impact of the virus outbreak will be material on the general economy and some central banks have already started to act by reducing interest rates and taking other measures. Undoubtedly, this will have some implications for the operations of the Group in the future, for example through impacting the supply chain to and from the mine and volatility in gold prices. Management is in the process of assessing the impact of COVID-19 on the Group, however, given the fluidity and significant volatility of the situation, it is not possible to quantify the impact at this stage.

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

Accounting Policies

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

(a) Principles of Consolidation

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are initially measured at fair value at the acquisition date. The excess of cost of acquisition over the fair value of

the Group's share of identifiable net assets acquired is recognised as separately identifiable intangibles and goodwill.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Any excess of the fair value of assets acquired over the cost of acquisition is recognised directly in the consolidated statement of comprehensive income.

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

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by other members of the Group. All intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Subsidiaries

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

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

(b) Revenue Recognition

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

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

(c) Income Tax

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Foreign Currency

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

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

(e) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits and money market investments readily converted to cash and have an insignificant risk of change in value. Bank overdrafts are shown within borrowings in current liabilities. For the purposes of the cash flow statements, cash and cash equivalents includes cash on hand and in banks, and money market investments readily convertible to cash, net of outstanding bank overdrafts. Restricted cash, comprising cash set aside to cover rehabilitation obligations, is not available for use by the Group and is excluded from cash and cash equivalents.

(f) Financial instruments – initial recognition and subsequent measurement

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

(1) Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, fair value through Other Comprehensive Income, or fair value through profit and loss. The classification of financial assets at initial recognition that are debt instruments depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Interest received is recognised as part of finance income in the statement of profit or loss and other comprehensive income. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired. IFRS 9.5.4 The Group's financial assets at amortised cost include other receivables and cash and cash equivalents.

Derecognition

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

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

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

Impairment of financial assets

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

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

exposure, irrespective of the timing of the default (a lifetime ECL).

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

(2) Financial liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs. The Group's financial liabilities include trade and other payables and loans.

Subsequent measurement

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

Loans and borrowings and trade and other payables

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

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

This category generally applies to trade and other payables.

Derecognition

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in profit or loss and other comprehensive income.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(3) Financial liabilities

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

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

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

(g) Intangible Assets

Deferred exploration costs

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

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

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

(h) Property, Plant and Equipment

(i) Owned asset

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

(ii) Subsequent costs

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(iii) Depreciation

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

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

The residual values and useful economic lives of all assets are reviewed annually. Mining assets are depreciated over the expected life of the mine. The amount of ore remaining and the expected future life of the mine are reviewed each year.

(iv) Mining assets and Deferred development costs

When the technical and commercial feasibility of an area of interest has been demonstrated, financing has been secured and the appropriate permits have been issued, the area of interest enters its development phase. The accumulated costs are transferred from exploration and evaluation expenditure within intangible assets and reclassified as mining assets and deferred development costs. When a mine development project moves into the production phase, the capitalization of certain mine development costs ceases and costs are either recognised as forming part of the cost of inventory or expensed, except for costs that qualify for capitalization relating to mining asset additions or improvements to mineable reserve development.

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

(v) Assets derecognition

The carrying amount of an item of property, plant and equipment shall be derecognized on disposal; or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition of an item of property, plant and equipment shall be included in profit or loss when the item is derecognized. The gain or loss from derecognition is calculated as the net disposal proceeds, if any, less the carrying amount of the item.

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

If any indication of impairment exists, the recoverable amount of the asset is estimated, being the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

(j) Inventory

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

(k) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, responsible for allocating resources and assessing performance of operating segments, has been identified as the Executive Chairman together with the Board of Directors.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Provisions

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

(m) Share Based Payments

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

(n) Borrowings and Borrowings Costs

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

(o) Finance leases

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

Lease payments are apportioned between interest expenses and capital redemption of the liability. Interest is recognised immediately in profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period, unless attributable to qualifying assets, in which case they are capitalised to the cost of those assets. The assets are depreciated over the shorter of the lease term and its useful lives.

(p) Exceptional items

Exceptional items are disclosed separately in the Financial Statements, where it is necessary to do so to provide further understanding of the financial performance of the Group. They are items that are material, either because of their size or their nature, or that are non-recurring. The gain on adjustment of mine closure provision was disclosed as an exceptional item in the year ended 31 December 2018.

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Lease liabilities

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease arrangements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments, less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate, initially measured using the index or the rate as at the commencement date;
- The exercise price of a purchase option; and
- Payment of penalties for terminating the lease.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

(r) Significant Accounting Estimates and Judgements

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

Key sources of estimation uncertainty

Impairment

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

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

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

Should any key parameters differ from the assumptions contained within the technical economic model, such as tonnes of ore mined, grade of ore mined, recovery profile or gold price, the net present value will be affected either positively or negatively. If the impact is negative, an impairment charge may be required that has not been recognised in these financial statements. Further information on the year end carrying values is disclosed in Note 10, “Property, Plant and Equipment”, and Note 12, “Intangibles”.

Depreciation

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

Environmental provisions

Management uses its judgement and experience, together with independently prepared reports by qualified valuers, to provide for and amortise the estimated costs for decommissioning and site rehabilitation over the life of the mine. The ultimate cost of decommissioning and site rehabilitation is uncertain and cost estimates can vary in response to many factors including changes to relevant legal requirements, the emergence of new restoration techniques or experience at other mine sites. The expected timing and extent of expenditure can also change, for example in response to changes in ore reserves or processing levels. As a result, there could be significant adjustments to the provisions estimated which could affect future financial results. Additional information on environmental provisions and the year-end carrying values is provided under “Provisions” in Note 20.

Estimation of recoverable gold contained on the leach pads

Valuations of gold on the leach pads require estimations of the amount of gold contained on the heaps. These estimations are based on the analysis of samples, historical operating data and prior experience. In addition, it requires an estimation of the costs associated with the gold on the leach pads. The value of gold on leach pads included in inventory at 31 December 2019 is \$1,058,000 (2018: \$1,175,000).

NOTE 2 - SEGMENT REPORTING

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

During 2019 the Group had three customers. The following table sets out the income and expenditure of the Group according to these reporting segments:

| 2019 | Peru US\$000 | Jersey US\$000 | Total US\$000 |
|--|-----------------|-------------------|------------------|
| Mining revenue | 31,754 | - | 31,754 |
| Mining cost of sales | (21,824) | - | (21,824) |
| Mining gross profit | 9,930 | - | 9,930 |
| Exploration costs expensed | (344) | - | (344) |
| Administrative expenses | (3,134) | (1,298) | (4,432) |
| Net income | 6,452 | (1,298) | 5,154 |
| Exploration of properties - deferred | (1,371) | - | (1,371) |
| Capital expenditure | (3,255) | - | (3,255) |
| Reconciliations | | | |
| Segmental Revenue | | | |
| Customer A | 23,723 | - | 23,723 |
| Customer B | 4,439 | - | 4,439 |
| Customer C | 1,347 | - | 1,347 |
| Customer D | 1,185 | - | 1,185 |
| Customer E | 1,060 | - | 1,060 |
| Group revenues | 31,754 | - | 31,754 |
| Segment Result | | | |
| Segmental net income | 6,452 | (1,298) | 5,154 |
| Depreciation and amortisation | (3,120) | - | (3,120) |
| Loss on disposal of PPE equipment | (63) | - | (63) |
| Write-off of assets | (1,253) | - | (1,253) |
| Group operating profit | 2,016 | (1,298) | 718 |
| Finance expense | (7,994) | - | (7,994) |
| Adjustment to mine closure provision | - | - | - |
| Group (loss)/profit before tax | (5,978) | (1,298) | (7,276) |
| Group Assets (not allocated for internal reporting) | | | |
| Non-current assets | 155,116 | 9,351 | 164,467 |
| Inventory | 2,262 | - | 2,262 |
| Other receivables and prepayments | 1,621 | 20 | 1,641 |
| Cash and cash equivalents | 2,791 | - | 2,791 |
| Group total assets | 161,790 | 9,371 | 171,161 |
| Group Liabilities (not allocated for internal reporting) | | | |
| Non-current liabilities | 6,490 | - | 6,490 |
| Lease liabilities – current | 5,170 | - | 5,170 |
| Interest bearing loans – current | 89,500 | - | 89,500 |
| Income tax payable | 2,710 | - | 2,710 |
| Trade and other payables – current | 10,414 | 296 | 10,710 |
| Group total liabilities | 114,284 | 296 | 114,580 |

NOTE 2 - SEGMENT REPORTING (continued)

| 2018 | Peru US\$000 | Jersey US\$000 | Total US\$000 |
|--|-----------------|-------------------|------------------|
| Mining revenue | 28,939 | - | 28,939 |
| Mining cost of sales | (20,912) | - | (20,912) |
| Mining gross profit | 8,027 | - | 8,027 |
| Exploration costs expensed | (238) | - | (238) |
| Administrative expenses | (3,811) | (1,422) | (5,233) |
| Net income | 3,978 | (1,422) | 2,556 |
| Exploration of properties - deferred | (2,718) | - | (2,718) |
| Capital expenditure | (1,796) | - | (1,796) |
| Reconciliations | | | |
| Segmental Revenue | | | |
| Customer A | 962 | - | 962 |
| Customer B | 1,166 | - | 1,166 |
| Customer C | 26,811 | - | 26,811 |
| Group revenues | 28,939 | - | 28,939 |
| Segment Result | | | |
| Segmental net income | 3,978 | (1,422) | 2,556 |
| Depreciation and amortisation | (3,007) | - | (3,007) |
| Profit on disposal of PPE equipment | 4 | - | 4 |
| Write-off of intangible asset | (173) | - | (173) |
| Group operating profit | 802 | (1,422) | (620) |
| Finance expense | (7,640) | - | (7,640) |
| Adjustment to mine closure provision | 3,351 | - | 3,351 |
| Group (loss)/profit before tax | (3,487) | (1,422) | (4,909) |
| Group Assets (not allocated for internal reporting) | | | |
| Non-current assets | 151,710 | 9,351 | 161,061 |
| Inventory | 2,181 | - | 2,181 |
| Other receivables and prepayments | 1,408 | 33 | 1,441 |
| Current tax recoverable | 127 | - | 127 |
| Cash and cash equivalents | 2,299 | - | 2,299 |
| Group total assets | 157,725 | 9,384 | 167,109 |
| Group Liabilities (not allocated for internal reporting) | | | |
| Provisions – non-current | 3,800 | - | 3,800 |
| Finance lease liabilities – current | 147 | - | 147 |
| Interest bearing loans – current | 82,992 | - | 82,992 |
| Trade and other payables – current | 11,800 | 302 | 12,102 |
| Group total liabilities | 98,739 | 302 | 99,041 |

NOTE 3 – REVENUE FROM CONTRACTS WITH CUSTOMERS

| | 2019 | 2018 |
|--|----------------|----------------|
| | US\$000 | US\$000 |
| Type of goods | | |
| Doré gold bars | 31,754 | 28,939 |
| Total revenue from contracts with customers | 31,754 | 28,939 |

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

NOTE 4 – EXPENSES BY NATURE

| | 2019 | 2018 |
|--|----------------|----------------|
| | US\$000 | US\$000 |
| Site operating costs | 16,940 | 16,361 |
| Community and environmental costs | 2,415 | 2,667 |
| Depreciation and amortisation | 3,120 | 3,007 |
| Royalties, taxes and selling costs | 1,819 | 1,688 |
| Foreign exchange | (12) | 341 |
| Public company expenses | 270 | 322 |
| Legal, professional and consulting fees | 1,156 | 710 |
| Arbitration costs | 269 | 1,141 |
| Remuneration expenses | 2,708 | 2,330 |
| Property costs and utilities | 426 | 446 |
| Travel costs | 228 | 250 |
| Other | 37 | (111) |
| Total cost of sales and administration expenses for the years | 29,376 | 29,152 |

Auditor's remuneration:

| | | |
|---|-----------|----|
| Fees payable to the Group's auditor and its associates for the audit of the consolidated and subsidiaries' financial statements | 89 | 86 |
|---|-----------|----|

NOTE 5 - STAFF NUMBERS AND COSTS

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

| | Number of employees 2019 | Number of employees 2018 |
|--------------------------------------|---|---|
| Corporate finance and administration | 35 | 37 |
| Technical | 17 | 21 |
| Construction and production | 292 | 295 |
| | 344 | 353 |

The aggregate payroll costs of these persons were as follows:

| | 2019 US\$000 | 2018 US\$000 |
|--------------------|-------------------------|-------------------------|
| Wages and salaries | 4,915 | 5,279 |
| Social security | 841 | 892 |
| | 5,756 | 6,171 |

NOTE 6 - FINANCE EXPENSE

| | 2019 US\$000 | 2018 US\$000 |
|--|-------------------------|-------------------------|
| COFIDE Bridge Loan interest | 6,508 | 6,509 |
| Other (includes unwinding of discount on environmental provisions and lease liabilities) | 1,486 | 1,131 |
| Finance expenses for the years | 7,994 | 7,640 |

NOTE 7 - REMUNERATION OF KEY MANAGEMENT PERSONNEL

| | Salary & Fees US\$000 | Other Benefits US\$000 | Total Remuneration US\$000 |
|------------------------------------|-----------------------------|------------------------------|----------------------------------|
| Year 2019 | | | |
| Directors ¹ | 875 | 72 | 947 |
| Non-Directors: ² | 292 | - | 292 |
| TOTAL | 1,167 | 72 | 1,239 |

Notes:

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

| | Salary & Fees US\$000 | Other Benefits US\$000 | Total Remuneration US\$000 |
|-----------------------------------|-----------------------------|------------------------------|----------------------------------|
| Year 2018 | | | |
| Directors ¹ | 875 | 101 | 976 |
| Non-Directors ² | 336 | 11 | 347 |
| TOTAL | 1,211 | 112 | 1,323 |

Notes:

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

NOTE 8 – EARNINGS PER SHARE

The calculation of the basic earnings or (losses) per share is based on the loss attributable to ordinary shareholders during the year ended 31 December 2019 of \$11,487,000 (2018: \$5,980,000) and the weighted average number of ordinary shares outstanding during the year ended 31 December 2019 of 231,135,028 (2018: 231,135,028).

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

| | 2019 Loss US\$000 | 2019 Number of shares '000 | 2019 Earnings per share US cents | 2018 Loss US\$000 | 2018 Number of shares '000 | 2018 Earnings per share US cents |
|-----------------------------|-------------------------|-------------------------------------|---|-------------------------|-------------------------------------|---|
| <u>Continuing Operation</u> | | | | | | |
| Basic earnings (losses) | (11,487) | 231,135 | (5.0) | (5,980) | 231,135 | (2.6) |
| Dilutive effects-options | - | - | - | - | - | - |
| Diluted profit/(loss) | (11,487) | 231,135 | (5.0) | (5,980) | 231,135 | (2.6) |

As at 31 December 2019, all share options were excluded from the calculation of diluted loss per share because they were non-dilutive.

NOTE 9 - INCOME TAX EXPENSE

| | 2019 US\$000 | 2018 US\$000 |
|--|-----------------|-----------------|
| Current tax | 2,373 | 1,071 |
| Adjustment to prior years' tax expense | 1,838 | |
| Income tax expense | 4,211 | 1,071 |

During 2013, the Group was issued tax reassessments by the Peruvian Tax Authority for the years ended 31 December 2008, 2009 and 2011 related to the deductibility of depreciation claimed by the Group.

The appeal filed by the Group with the Tax Authority was unsuccessful. The Group subsequently filed an appeal with the Tax Court. In February 2020 the Tax Court issued its final ruling and ordered the recalculation of income tax payable for the years ended 31 December 2008 and 2009 plus penalties and interest since 2013. The Tax Court authorized the Tax Authority to collect the aggregate amount of the tax debt, which as at 31 December 2019 is \$1,838,000. The Group has accrued this amount but will continue litigation in the Civil Courts.

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

| | 2019 US\$000 | 2018 US\$000 |
|--|-----------------|-----------------|
| Tax reconciliation | | |
| Loss for the year | (11,487) | (5,980) |
| Adjustment to prior years' income tax | (1,838) | - |
| Income Tax | (2,373) | (1,071) |
| Loss before tax | (7,276) | (4,909) |
| Tax at 29.5% (2018: 29.5%) | (2,146) | (1,448) |
| Effects at 29.5% (2018: 29.5%) of: | | |
| Expenses not deductible for tax purposes and losses carried forward on which no deferred tax asset is recognised | 4,519 | 2,519 |
| Income tax expense - current | 2,373 | 1,071 |

The Group has estimated tax losses of approximately \$5,007,000 (2018: \$7,433,000) available to carry forward for offset against future profits.

A potential deferred tax asset of \$1,477,000 (2018: \$2,193,000) has not been recognised because there is insufficient evidence of the timing of future taxable profits against which they can be recovered.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT

| | Mining assets & deferred development costs US\$000 | Land & buildings US\$000 | Motor Vehicles US\$000 | Computers & other equipment US\$000 | Total US\$000 |
|--|---|-----------------------------------|------------------------------|--|------------------|
| Cost | | | | | |
| Balance at 1 January 2018 | 61,189 | 427 | 2,359 | 4,208 | 68,183 |
| Additions | 1,609 | 97 | 43 | 47 | 1,796 |
| Adjustment to mine closure provision ⁽¹⁾ | (3,776) | - | - | - | (3,776) |
| Other adjustment ⁽²⁾ | - | - | - | (449) | (449) |
| Reclassification from intangibles (see note 11) | 1,476 | - | - | - | 1,476 |
| Disposals | - | - | (67) | - | (67) |
| Balance - 31 December 2018 | 60,498 | 524 | 2,335 | 3,806 | 67,163 |
| Balance at 1 January 2019 | 60,498 | 524 | 2,335 | 3,806 | 67,163 |
| Additions | 929 | - | 2,280 | 46 | 3,255 |
| Adjustment to mine closure provision ⁽³⁾ | 420 | - | - | - | 420 |
| Other adjustment ⁽⁴⁾ | - | - | - | (546) | (546) |
| Disposals | (31) | - | (1,670) | - | (1,701) |
| Write off ⁽⁵⁾ | (14,973) | - | - | - | (14,973) |
| Reclassifications | (25) | - | - | 25 | - |
| Balance - 31 December 2019 | 46,818 | 524 | 2,945 | 3,331 | 53,618 |
| Depreciation | | | | | |
| Balance - 1 January 2018 | 53,183 | 350 | 806 | 2,859 | 57,198 |
| Depreciation for the year | 2,356 | 19 | 525 | 115 | 3,015 |
| Adjustment to mine closure provision ⁽¹⁾ | (2,812) | - | - | - | (2,812) |
| Disposals | - | - | (67) | - | (67) |
| Balance - 31 December 2018 | 52,727 | 369 | 1,264 | 2,974 | 57,334 |
| Balance - 1 January 2019 | 52,727 | 369 | 1,264 | 2,974 | 57,334 |
| Depreciation for the year | 2,369 | 35 | 608 | 117 | 3,129 |
| Disposals | (31) | - | (897) | - | (928) |
| Write off ⁽⁴⁾ | (13,789) | - | - | - | (13,789) |
| Balance - 31 December 2019 | 41,276 | 404 | 975 | 3,091 | 45,746 |
| Carrying amounts | | | | | |
| Balance - 1 January 2018 | 8,006 | 77 | 1,553 | 1,349 | 10,985 |
| Balance - 31 December 2018 | 7,771 | 155 | 1,071 | 832 | 9,829 |
| Balance - 31 December 2019 | 5,542 | 120 | 1,970 | 240 | 7,872 |

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

⁽²⁾ In 2018 the Group terminated an agreement with a supplier of electrical equipment intended for the Ollachea Project. As a result the Group recorded a reversal of \$449,000.

NOTE 10 - PROPERTY, PLANT AND EQUIPMENT (continued)

⁽³⁾ At the end of 2019 the Group reassessed the mine closure provisions of the Corihuarmi Mine and the Ollachea Project. The result of the reassessment was a net increase of \$420,000 in the carrying value of the correspondent asset account.

⁽⁴⁾ In 2019 the Group recorded a reversal of \$546,000 of electrical equipment intended for the Ollachea Project.

⁽⁵⁾ In 2019, the Group wrote off certain assets which are neither expected to produce future economic benefits nor are in use. The result of this write off was a net reduction of \$1,184,000 in the carrying value of the correspondent asset account that was recorded as an operating loss.

NOTE 11 – RIGHT-OF-USE ASSETS

| | Mining Assets US\$000 | Land & Buildings US\$000 | Motor Vehicles US\$000 | Total US\$000 |
|-----------------------------------|--------------------------|--------------------------------|------------------------------|------------------|
| Cost | | | | |
| Balance - 1 January 2019 | 5,707 | 1,161 | 1,510 | 8,378 |
| Additions | - | 458 | - | 458 |
| Balance - 31 December 2019 | 5,707 | 1,619 | 1,510 | 8,836 |
| Accumulated Depreciation | | | | |
| Balance - 1 January 2019 | - | - | - | - |
| Depreciation for the year | 3,781 | 330 | 953 | 5,064 |
| Balance - 31 December 2019 | 3,781 | 330 | 953 | 5,064 |
| Carrying amounts | | | | |
| Balance - 1 January 2019 | 5,707 | 1,161 | 1,510 | 8,378 |
| Balance - 31 December 2019 | 1,926 | 1,289 | 557 | 3,772 |

The Group adopted IFRS16 effective 1 January 2019. The initial recognition of right-of-use assets resulted in an increase of \$8,378,000. These assets are depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

NOTE 12 - INTANGIBLE ASSETS

| | Ollachea US\$000 | Other Peru US\$000 | Total US\$000 |
|---------------------------------------|---------------------|--------------------------|------------------|
| Deferred Exploration Costs | | | |
| Balance – 1 January 2018 | 140,272 | 2,052 | 142,324 |
| Additions | 2,225 | 493 | 2,718 |
| Reclassifications (see note 10) | - | (1,476) | (1,476) |
| Write-off of intangible assets | - | (173) | (173) |
| Balance – 31 December 2018 | 142,497 | 896 | 143,393 |
| Additions | 1,154 | 217 | 1,371 |
| Write-off of intangible assets | - | (69) | (69) |
| Balance - 31 December 2019 | 143,651 | 1,044 | 144,695 |

NOTE 12 - INTANGIBLE ASSETS (continued)

The Ollachea property will require significant project financing in order to bring it into production and convert it into mining assets. The carrying values of the deferred exploration and development costs for the Ollachea property and the Group's other exploration properties in Peru at 31 December 2019 have been assessed for indications of impairment and the results of these assessments have been sufficiently encouraging to justify the retention of the deferred exploration and development assets on the consolidated statements of financial position.

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

In 2019 the Group decided to discontinue paying mineral rights related to the Bethania project in order to preserve cash. In consequence the Group recorded a write off charge of \$69,000 related to this project. In 2018 the Group decided to discontinue paying mineral rights related to the Quilavira project in order to preserve cash. In consequence the Group recorded a write off charge of \$173,000 related to this project.

NOTE 13 - OTHER RECEIVABLES AND PREPAYMENTS

| | 2019 US\$000 | 2018 US\$000 |
|---------------------------|-----------------|-----------------|
| Non-current assets | | |
| Other receivables | 8,128 | 7,839 |
| Balance as at 31 December | 8,128 | 7,839 |
| Current assets | | |
| Other receivables | 1,078 | 1,070 |
| Prepayments | 563 | 371 |
| Balance as at 31 December | 1,641 | 1,441 |

Included in other receivables and prepayments is an amount of \$8,920,000 (2018: \$8,425,000) relating to sales tax paid on the purchase of goods and services in Peru. Of the \$8,920,000 sales tax recoverable, \$8,128,000 relates to purchases for the Ollachea project which is only recoverable upon commencement of metal sales from that project. Commercial production is not expected to commence in 2020, therefore this element has been included in non-current assets.

NOTE 14 - INVENTORY

| | 2019 US\$000 | 2018 US\$000 |
|---------------------------|-----------------|-----------------|
| Gold in process | 1,430 | 1,408 |
| Mining materials | 832 | 773 |
| Balance as at 31 December | 2,262 | 2,181 |

NOTE 15 - CASH AND CASH EQUIVALENTS

| | 2019 US\$000 | 2018 US\$000 |
|---------------------------------|-----------------|-----------------|
| Bank balances as at 31 December | 2,791 | 2,299 |

NOTE 16 - CAPITAL AND RESERVES

As at 31 December 2019 and 2018, Minera IRL Limited's share capital is made up of shares with no par value. There is no upper limit on the value of shares to be issued.

| Issued and fully paid share capital | Ordinary shares | US\$000 |
|--|----------------------------|----------------|
| Shares in issue 31 December 2018 | 231,135,028 | 159,012 |
| Shares in issue 31 December 2019 | 231,135,028 | 159,012 |

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

Share Options

Group Share Option Scheme

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

| | 2019 | Weighted average exercise price (£) | 2018 | Weighted average exercise price (£) |
|---------------------------------|--|--|--|--|
| | Number of share Options | | Number of share options | |
| Outstanding - beginning of year | - | - | 700,000 | 0.15 |
| Expired during the year | - | - | (700,000) | 0.15 |
| Outstanding - end of the year | - | - | - | - |
| Exercisable - end of the year | - | - | - | - |

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

Other Share Options

| | 2019 | Weighted average exercise price (\$) | 2018 | Weighted average exercise price (\$) |
|---|--|---|--|---|
| | Number of share options | | Number of share options | |
| Outstanding entitlement - beginning of year | 11,556,751 | 0.16 | 11,556,751 | 0.16 |
| Outstanding entitlement - end of the year | 11,556,751 | 0.15 | 11,556,751 | 0.16 |
| Exercisable - end of the year | - | - | - | - |

NOTE 16 - CAPITAL AND RESERVES (continued)

As part of the fees paid in connection with the Bridge Loan to structuring agent Inversiones y Asesoría SHERPA S.C.R.L. (“Sherpa”), Minera IRL Limited was required to grant 11,556,751 options (subject to receipt of all regulatory approvals). Each option would be exercisable to purchase one ordinary share of the Group at a price of C\$0.20 (\$0.15) per share at any time on or prior to the date that is 360 days after the commencement of commercial production from the Ollachea Project. During the Annual General Meeting held on 30 November 2016 the resolution granting the directors the authority to allot shares was not passed. Consequently these options have not yet been granted however the entitlement remains.

All outstanding share options have an exercise price of \$0.15 (2018: \$0.16).

Share Option Reserve

The share option reserve includes a credit based on the fair value of share options issued and remaining in issue at 31 December 2019.

Accumulated losses

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

Capital Maintenance

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

| | 2019 US\$000 | 2018 US\$000 |
|--|-----------------|-----------------|
| Total interest bearing debt | 89,500 | 82,992 |
| Total equity | 56,581 | 68,068 |
| Debt-to-equity ratio as at 31 December | 158.2% | 121.9% |

NOTE 17 – FINANCE LEASE OBLIGATIONS

During the second quarter of 2017 the Group replaced a significant part of its dump truck fleet (10 units) at the Corihuarmi Mine through a leasing contract. The acquisition cost of the new units was \$1,501,000 and the old units were sold for \$458,000. The balance was financed through a two year lease term with an interest rate of 14.33%. This lease was fully paid during the third quarter of 2019.

During the third quarter of 2019 these dump trucks were sold for \$678,000. At the date of sale the net book value of these trucks was \$700,000.

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

| Lease Obligations | 2019 US\$000 | 2018 US\$000 |
|---------------------------|-----------------|-----------------|
| Balance - 1 January | 147 | 677 |
| Paid during the period | (147) | (530) |
| Balance as at 31 December | - | 147 |

NOTE 17 – FINANCE LEASE OBLIGATIONS (continued)

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

| | 2019 US\$000 | 2018 US\$000 |
|---|-----------------|-----------------|
| Present value | - | 144 |
| Interest | - | 3 |
| Total gross future minimum lease payments | - | 147 |

NOTE 18 – INTEREST BEARING LOANS

| | 2019 US\$000 | 2018 US\$000 |
|----------------------------|-----------------|-----------------|
| Current liabilities | | |
| Promissory note | 1,516 | 1,516 |
| Bank loan | 87,984 | 81,476 |
| Balance as at 31 December | 89,500 | 82,992 |

The increase in the carrying value of the Bank Loan during the year ended 31 December 2019 is due to accrued interest on the COFIDE Bridge Loan of \$6,508,000 (see Note 6).

COFIDE Bridge Loan

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

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

The 0.9% net smelter return royalty granted to Sherpa is subject to a buyback at the Group's option. Details on the royalty buyback are provided in Note 24, "Capital commitments and contingent liabilities".

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

NOTE 18 – INTEREST BEARING LOANS (continued)

The net proceeds from the Bridge Loan were applied towards the repayment of the \$30,000,000 Macquarie Bank debt facility and the payment of \$12,000,000 of the \$14,190,000 outstanding to Rio Tinto under the Ollachea Mining Rights Transfer Contract. The remaining \$2,190,000 outstanding to Rio Tinto has been converted into an unsecured promissory note payable by 31 December 2015, accruing interest at a rate of 7% per annum. The promissory note was recorded as an interest bearing loan on the statement of financial position under current liabilities. The Group had negotiated the option of settling the \$2,190,000 promissory note with cash or the issuance of Minera IRL Limited ordinary shares, subject to shareholder approval. However, the resolution to approve the issuance of ordinary shares in settlement of the promissory note at the annual general meeting, held on 27 August 2015, was not approved by shareholders. The Group repaid \$700,000 of the principal plus interest during 2016. The balance of \$1,516,000 as at 31 December 2019 is \$1,490,000 of principal and \$26,000 of interest.

In March 2017 COFIDE terminated the letter of mandate without providing any reason for their decision. The Bridge Loan was due for repayment in June 2017. The Bridge Loan is secured by the Ollachea Project's assets, mining reserves, mining concessions and rights and a pledge of the shares of the Group's subsidiary, Compañía Minera Kuri Kullu S.A., which holds the Ollachea Project. The assets of the Corihuarmi Mine are not included as a guarantee of the Bridge Loan.

On 20 June 2017 the Group announced it had filed a request for an arbitration against COFIDE with the Arbitration Centre of the Lima Chamber of Commerce.

On 16 September 2019 the Company announced that the Court of Arbitration had issued its Arbitration Award. The Award provides that COFIDE must pay an aggregate amount of \$34.2 million for damages. The Court of Arbitration declared that it did not have jurisdiction to require repayment of the Bridge Loan because the Bridge Loan facility expressly provides that it is subject to the jurisdiction of the courts of New York, United States.

On 31 December 2019 the Group signed a Memorandum of Understanding ("MOU") with COFIDE which is valid until 31 March 2020. During this period both the collection of damages by the Group and the collection of the debt and/or interests by COFIDE remain suspended. The objective of the MOU is to allow both parties to reach an agreement in settlement of the obligations imposed by the Arbitration Award announced on 16 September 2019 as well as related matters, including the Bridge Loan repayment. The Group is aware that COFIDE has filed a lawsuit for annulment of the Arbitration Award. The MOU provides that COFIDE will take the necessary steps to desist from this legal process if the parties reach a definitive agreement within the timeframe of the MOU. The Bridge Loan plus interest becomes fully payable on demand as from 1 April 2020 in the event an agreement is not reached with COFIDE or both parties agree to an extension to the MOU.

The Bridge Loan is secured by the Ollachea Project's assets, mining reserves, mining concessions and rights and a pledge of the shares of the Group's subsidiary, Compañía Minera Kuri Kullu S.A., which holds the Ollachea Project. If the parties do not finalize the agreement described in the previous paragraph or the Group is not able to secure an alternative source of funds to refinance the debt with COFIDE the Group may have to relinquish its ownership of the subsidiary, Compañía Minera Kuri Kullu S.A. and therefore the Ollachea Project. All net assets associated with the Ollachea Project would be fully impaired as a result.

NOTE 18 – INTEREST BEARING LOANS (continued)

| Group – Net debt reconciliation | Cash US\$000 | Finance leases due within 1 year US\$000 | Finance leases due after 1 year US\$000 | Borrowings due within 1 year US\$000 | Total US\$000 |
|--|-------------------------|---|--|---|--------------------------|
| Net debt as at 1 January 2018 | 3,276 | (530) | (147) | (76,483) | (73,884) |
| Cash flows | (977) | 530 | - | - | (447) |
| Accrued interest | - | - | - | (6,509) | (6,509) |
| Other changes | - | (147) | 147 | - | - |
| Net debt as at 31 December 2018 | 2,299 | (147) | - | (82,992) | (80,840) |
| Cash flows | 492 | 147 | - | - | 639 |
| Accrued interest | - | - | - | (6,508) | (6,508) |
| Other changes | - | - | - | - | - |
| Net debt as at 31 December 2019 | 2,791 | - | - | (89,500) | (86,709) |

NOTE 19 – LEASE LIABILITIES

From 1 January 2019, leases are recognised as a right of use asset (see Note 11) and a corresponding liability at the date at which the leased asset is available for use by the Group. The following is a schedule of future lease payments due under the capital lease contract.

| Lease Obligations | 2019 US\$000 | 2018 US\$000 |
|----------------------------------|-------------------------|-------------------------|
| Balance - 1 January | 8,378 | - |
| Additions | 458 | - |
| Unwinding of the discount | 744 | - |
| Paid during the period | (3,369) | - |
| Foreign exchange adjustment | 16 | - |
| Balance as at 31 December | 6,227 | - |

The current and non-current portions are as follows:

| | 2019 US\$000 | 2018 US\$000 |
|----------------------------------|-------------------------|-------------------------|
| Current portion | 5,170 | - |
| Non-current portion | 1,057 | - |
| Balance as at 31 December | 6,227 | - |

The Group adopted IFRS16 effective 1 January 2019. The initial recognition of right-of-use assets (see Note 11) resulted in \$8,378,000 recorded as liabilities. In the previous year, the Group only recognised lease assets and lease liabilities that were classified as ‘finance leases’ under IAS 17 Leases.

NOTE 20 - PROVISIONS

The Group has a provision of \$4,456,000 (2018: \$3,800,000) against the present value of the cost of restoring the Corihuarmi Mine site and Ollachea exploration tunnel site. This provision is an estimate of the cost of reversing the alterations to the environment that had been made to date. The timing and cost of this rehabilitation is uncertain and depends upon the duration of the mine life and the quantity of ore that will be extracted from the mine. At the year end, management estimates that the remaining mine life at Corihuarmi is approximately 40 months. The directors have currently estimated the rehabilitation of the Ollachea exploration tunnel to begin in 9 years' time on the assumption that commercial production does not proceed.

| | 2019 US\$000 | 2018 US\$000 |
|---------------------------|-----------------|-----------------|
| Balance brought forward | 3,800 | 7,269 |
| Unwinding of the discount | 469 | 895 |
| Additional provision | 420 | - |
| Unused amounts reversed | - | (4,316) |
| Amounts used | (233) | (48) |
| Balance as at 31 December | 4,456 | 3,800 |

At the end of 2019, the Group hired an independent consultant to reassess the mine closure provisions of the Corihuarmi Mine and the Ollachea Project. The result of the reassessment was an increase of \$420,000 in the carrying value of the provision and in the carrying value of the correspondent asset account. At the end of 2018, the Group hired an independent consultant to reassess the mine closure provisions of the Corihuarmi Mine and the Ollachea Project. The result of the reassessment was a reduction of \$4,316,000 in the carrying value of the provision and a net reduction of \$964,000 in the carrying value of the correspondent asset account (see Note 11).

NOTE 21 – TRADE AND OTHER PAYABLES

| | 2019 US\$000 | 2018 US\$000 |
|---------------------------|-----------------|-----------------|
| Non-current | | |
| Trade payables | 977 | - |
| Current | | |
| Trade payables | 7,276 | 7,783 |
| Other payables | 3,434 | 4,319 |
| Balance as at 31 December | 10,710 | 12,102 |

NOTE 22 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

Financial instruments

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

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

NOTE 22 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Risk management

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

Exchange rate risk

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

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

| | 2019 US\$000 | 2018 US\$000 |
|---------------------------|-----------------|-----------------|
| Peruvian nuevos soles | 143 | 255 |
| United States dollars | 2,648 | 2,044 |
| Balance as at 31 December | 2,791 | 2,299 |

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

| | 2019 US\$000 | 2018 US\$000 |
|---------------------------|-----------------|-----------------|
| Pounds sterling | (101) | (109) |
| Canadian dollars | (5) | (22) |
| Peruvian nuevos soles | (3,785) | (2,172) |
| United States dollars | (88,018) | (85,032) |
| Balance as at 31 December | (91,909) | (87,335) |

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

| | 2019 US\$000 | 2018 US\$000 |
|------------------------------------|-----------------|-----------------|
| 10% weakening of the US dollar | (389) | (230) |
| 20% weakening of the US dollar | (778) | (461) |
| 10% strengthening of the US dollar | 389 | 230 |
| 20% strengthening of the US dollar | 778 | 461 |

Liquidity risk

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

NOTE 22 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

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

| 2019 | Due in less | Due between | Due between | |
|---|--------------------|---------------------------|---------------------|----------------|
| Financial assets measured at amortised | than 3 | 3 months to 1 year | 1 to 5 years | Total |
| cost | months | | | |
| | US\$000 | US\$000 | US\$000 | US\$000 |
| Receivables | 1,069 | - | 8,128 | 9,197 |
| Cash and cash equivalents | 2,791 | - | - | 2,791 |
| Total | 3,860 | - | 8,128 | 11,988 |

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

| 2019 | Due in less | Due between | Due between | |
|--|--------------------|---------------------------|--------------------|----------------|
| Financial Liabilities measured at | than 3 | 3 months to 1 year | 1 to 5 | Total |
| amortised cost | months | | years | |
| | US\$000 | US\$000 | US\$000 | US\$000 |
| Trade payables | 7,276 | 977 | - | 8,253 |
| Other payables | 3,434 | - | - | 3,434 |
| Interest bearing loan | 89,500 | - | - | 89,500 |
| | 100,210 | 977 | - | 101,187 |

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

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

Market price of minerals risk

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

international investment patterns and monetary systems and political developments.

NOTE 22 - FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (continued)

Credit risk

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

Interest rate risk

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

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

NOTE 23 - CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group is subject to various laws and regulations governing its mining, development and exploration activities. These laws and regulations are continually changing and generally becoming more restrictive. The Group has made, and expects to make in the future, expenditures to comply with such laws and regulations. The Group estimates an amount of \$827,000 (2018: \$934,000) as contingencies related to environmental issues.

During 2013, the Group was issued tax reassessments by the Peruvian Tax Authority for the years ended 31 December 2008, 2009 and 2011 related to the deductibility of depreciation claimed by the Group.

The appeal filed by the Group with the Tax Authority was unsuccessful. The Group subsequently filed an appeal with the Tax Court. In February 2020 the Tax Court issued its final ruling and ordered the recalculation of income tax payable for the years ended 31 December 2008 and 2009 plus penalties and interest since 2013. The Tax Court authorized the Tax Authority to collect the aggregate amount of the tax debt, which as at 31 December 2019 is \$1,838,000. The Group has accrued this amount but will continue litigation in the Civil Courts. The appeal corresponding to the year ended 31 December 2011 is still under review in the Tax Court. If the Group is unsuccessful in this appeal, an aggregate amount of \$2,400,000 would be payable, including tax, penalties and interest calculated as at 31 December 2019.

During 2019, the Group was issued a tax reassessment by the Peruvian Tax Authority for the year ended 31 December 2017 related to the deductibility of expenses and interest relative to the Bridge Loan. If the Group is unsuccessful in this appeal, an aggregate amount of \$5,000,000 would be payable, including tax, penalties and interest calculated as at 31 December 2019.

The Group entered into a contract with a legal firm in connection with the arbitration process described in Note 1. The contract includes a 6% success fee on damages awarded through the Arbitration Award, which represents an amount of \$2,052,000 approximately. This success fee will be payable when the lawsuit for annulment of the Arbitration Award filed by COFIDE is rejected or COFIDE desists from this lawsuit. As previously disclosed, no asset has currently been recognised in the financial statements in respect of the \$34.2 million damages awarded to the Group under the Arbitration Award.

NOTE 23 - CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES (continued)

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

In June 2015, the Group secured a \$70,000,000 Bridge Loan from COFIDE. The financial structuring costs related to the Bridge Loan included a 0.9% net smelter return royalty on gold production from the Ollachea Project granted to Sherpa. The Group has the right to buyback and cancel this royalty from Sherpa by paying a buy-back fee of \$5,566,000.

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

NOTE 24 - RELATED PARTIES

During the year ended 31 December 2019, the Group did not enter into transactions with related parties with the exception of directors and key management as disclosed on Note 7. As at 31 December 2019, the Group owed \$84,000 to directors and key management.

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

NOTE 25 - SUBSEQUENT EVENTS

On 21 February 2020 the Group paid the tax reassessments of \$1,838,000 issued by the Peruvian Tax Authority for the years ended 31 December 2008 and 2009 (see note 9). In order to finance that payment, which enables the Group to continue its appeal against the assessments, the Group entered into an unsecured loan arrangement for \$2,000,000 with an unrelated party. The loan period is for 24 months at 12% interest per annum. All interest for the duration of the loan is payable during the first 4 months at \$120,000 per month, with the principal repayable from the 5th month at \$100,000 per month.

Corona/COVID-19 is a developing situation and as of 27 March 2020, the assessment of this situation will need continued attention and will evolve over time. In our view, consistent with many others in our industry, COVID-19 is considered to be a non-adjusting post statement of financial position event and no adjustment is made in the financial statements as a result.

The rapid development and fluidity of the COVID-19 virus make it difficult to predict the ultimate impact at this stage. In line with most experts, we believe that the impact of the virus outbreak will be material on the general economy and some central banks have already started to act by reducing interest rates and taking other measures. Undoubtedly, this will have some implications for the operations of the Group in the future, for example through impacting the supply chain to and from the mine and volatility in gold prices. Management is in the process of assessing the impact of COVID-19 on the Group, however, given the fluidity and significant volatility of the situation, it is not possible to quantify the impact at this stage.

**STAND ALONE ACCOUNTS OF
MINERA IRL LIMITED**

**FOR THE YEAR ENDED
31 DECEMBER 2019**



COMPANY STATEMENT OF TOTAL COMPREHENSIVE INCOME
For the years ended 31 December 2019 and 2018

| | Notes | 2019 US\$000 | 2018 US\$000 |
|--|-------|-----------------|-----------------|
| Administration expenses | 3 | (1,298) | (1,422) |
| Operating loss | | (1,298) | (1,422) |
| Intercompany interest | 4 | (1,891) | (2,728) |
| Loss for the year attributable to the equity shareholders of the parent | | (3,189) | (4,150) |
| Total comprehensive loss for the year attributable to the equity shareholders of the parent | | (3,189) | (4,150) |

COMPANY STATEMENT OF FINANCIAL POSITION
As at 31 December 2019 and 2018

| | | 2019 | 2018 |
|---|--------------|-----------------|----------------|
| | Notas | US\$000 | US\$000 |
| Assets | | | |
| Other receivables and pre-payments | | 20 | 33 |
| Intercompany receivables | 5 | 7,438 | 7,438 |
| Total current assets | | 7,458 | 7,471 |
| Intangible assets | 6 | 9,351 | 9,351 |
| Investment in Subsidiaries | 7 | 66,317 | 117,331 |
| Total non-current assets | | 75,668 | 126,682 |
| Total assets | | 83,126 | 134,153 |
| Liabilities | | | |
| Trade and other payables | 11 | 296 | 301 |
| Total current liabilities | | 296 | 301 |
| Intercompany liabilities | 10 | 412 | 48,245 |
| Total non-current liabilities | | 412 | 48,245 |
| Total liabilities | | 708 | 48,546 |
| Equity | | | |
| Share Capital | 8 | 159,012 | 159,012 |
| Share options reserve | 9 | 433 | 433 |
| Accumulated losses | | (77,027) | (73,838) |
| Total equity attributable to the equity shareholders of the parent | | 82,418 | 85,607 |
| Total equity and liabilities | | 83,126 | 134,153 |

COMPANY STATEMENT OF CHANGES IN EQUITY
For the years ended 31 December 2019 and 2018

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

| | Number of shares | Share Capital US\$000 | Share options reserve US\$000 | (Accumulated Losses) Retained Earnings US\$000 | Total US\$000 |
|--------------------------------|---------------------|-----------------------------|--|---|------------------|
| Balance as at 1 January 2019 | 231,135,028 | 159,012 | 433 | (73,838) | 85,607 |
| Loss for the year | - | - | - | (3,189) | (3,189) |
| Total comprehensive loss | - | - | - | (3,189) | (3,189) |
| Balance as at 31 December 2019 | 231,135,028 | 159,012 | 433 | (77,027) | 82,418 |

COMPANY CASH FLOW STATEMENT
For the years ended 31 December 2019 and 2018

| | Notes | 2019 US\$000 | 2018 US\$000 |
|--|-------|-----------------|-----------------|
| Cash flows from operating activities: | | | |
| Loss | | (3,189) | (4,150) |
| Intercompany interest | 4 | 1,891 | 2,728 |
| Decrease in prepayments | | 13 | - |
| Decrease in accounts payable | | (5) | (89) |
| Cash used in operating activities | | (1,290) | (1,511) |
| Cash flows from financing activities | | | |
| Funds transferred from subsidiary | 11 | 1,290 | 1,511 |
| Net changes in cash balance | | - | - |
| Cash balance at beginning of year | | - | - |
| Cash balance at end of year | | - | - |

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2019

Note 1 – Nature and Continuance of Operations

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

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

At 31 December 2019, the Company had a working capital balance of \$7,162,000. Working capital is defined as current assets less current liabilities. The Company has no operations by itself and does not generate revenue, does not have a bank account and carries out its operations through its subsidiaries. All payments are made through Minera IRL SA, one of its Peruvian subsidiaries.

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

In March 2017 COFIDE terminated the letter of mandate without providing any reason for their decision. The Bridge Loan was due for repayment in June 2017. The Bridge Loan is secured by the Ollachea Project’s assets, mining reserves, mining concessions and rights and a pledge of the shares of the Group’s subsidiary, Compañía Minera Kuri Kullu S.A., which holds the Ollachea Project. The assets of the Corihuarmi Mine are not included as a guarantee of the Bridge Loan.

On 20 June 2017 the Group announced it had filed a request for an arbitration against COFIDE with the Arbitration Centre of the Lima Chamber of Commerce.

On 16 September 2019 the Company announced that the Court of Arbitration had issued its Arbitration Award. The Award provides that COFIDE must pay an aggregate amount of \$34.2 million for damages. The Court of Arbitration declared that it did not have jurisdiction to require repayment of the Bridge Loan because the Bridge Loan facility expressly provides that it is subject to the jurisdiction of the courts of New York, United States. No amount for the damages awarded of \$34.2 million has been recognised in the 2019 financial statements given the uncertainty at the year-end over its recoverability.

On 31 December 2019 the Group signed a Memorandum of Understanding (“MOU”) with COFIDE which is valid until 31 March 2020. During this period both the collection of damages by the Group and the collection of the debt and/or interests by COFIDE remain suspended. The objective of the MOU is to allow both parties to reach an agreement in settlement of the obligations imposed by the Arbitration Award announced on 16 September 2019 as well as related matters, including the Bridge Loan repayment. The Group is aware that COFIDE has filed a lawsuit for annulment of the Arbitration Award. The MOU provides that COFIDE will take the necessary steps to desist from this legal process if the parties reach a definitive agreement within the timeframe of the MOU.

Note 1 – Nature and Continuance of Operations (continued)

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

Notwithstanding that there can be no guarantee that an alternative source of funding will be secured within the required timescale or on acceptable terms, the Directors consider that the agreement described in previous paragraphs will be finalized and that alternative funding will be obtained to repay the Bridge Loan plus interest and to develop the Ollachea Project. The cash generated from gold production at the Corihuarmi Mine is required to fund the working capital requirements of the Group in the meantime.

The Memorandum of Understanding with COFIDE expires on 31 March 2020 and, as at the date of these financial statements, no agreement has yet been reached. The Board remains committed to reaching an agreement before 31 March 2020, although an extension to the Memorandum of Understanding remains one option. In the event that neither an agreement is reached nor an extension is in place on or before 31 March 2020, the Board has already considered and taken legal advice on the different options available to it under Peruvian and US law.

The rapid development and fluidity of the COVID-19 virus make it difficult to predict the ultimate impact at this stage. In line with most experts, we believe that the impact of the virus outbreak will be material on the general economy and some central banks have already started to act by reducing interest rates and taking other measures. Undoubtedly, this will have some implications for the operations of the Group in the future, for example through impacting the supply chain to and from the mine and volatility in gold prices. Management is in the process of assessing the impact of COVID-19 on the Group, however, given the fluidity and significant volatility of the situation, it is not possible to quantify the impact at this stage.

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

Note 2 – Basis of Preparation

These Stand Alone Financial Statements of Minera IRL Limited are presented in United States dollars, rounded to the nearest thousand. This Report has been prepared under the historical cost convention unless otherwise specified.

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

Note 3 – Administrative expenses

| | 2019 US\$000 | 2018 US\$000 |
|---------------------------------------|-----------------|-----------------|
| Director fees | 120 | 120 |
| Travel expenses | 68 | 82 |
| Salaries and other benefits | 702 | 714 |
| Professional fees | 377 | 467 |
| Other | 31 | 39 |
| Administrative expenses for the years | 1,298 | 1,422 |

Note 4 – Finance expense

| | 2019 \$000 | 2018 \$ 000 |
|----------------------------------|---------------|----------------|
| Intercompany interests | 1,891 | 2,728 |
| Financial expenses for the years | 1,891 | 2,728 |

Note 5 – Intercompany receivables

| | 2019 US\$000 | 2018 US\$000 |
|---|-----------------|-----------------|
| Intercompany receivable from Minera Kuri Kullu SA | 7,438 | 7,438 |
| Balance at 31 December | 7,438 | 7,438 |

All amounts due are interest free and repayable on demand.

Note 6 – Intangible Assets

The balance of intangible assets is the amount invested on the Ollachea Gold Project which is owned by the Company's subsidiary Minera Kuri Kullu SA. There were no changes to the amount invested during the years ended 31 December 2019 and 2018.

Note 7 – Investment in Subsidiaries

| | 2019 US\$000 | 2018 US\$000 |
|-----------------------|-----------------|-----------------|
| Balance at 1 January | 66,317 | 117,331 |
| Balance at 1 December | 66,317 | 117,331 |

During the third quarter of 2019 the investment account of the Company in its subsidiary Minera IRL SA decreased by \$51,014,000 principally due to a share capital reduction for the same amount in that subsidiary.

The Company holds investments in the following subsidiaries:

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

Note 8 - Share Capital

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

There was no share capital issuances during the year ended 31 December 2019.

Note 9 – Share options reserve

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

| | 2019 | | 2018 | |
|---------------------------------|-------------------------|-------------------------------------|-------------------------|-------------------------------------|
| | Number of share options | Weighted average exercise price (£) | Number of share Options | Weighted average exercise price (£) |
| Outstanding - beginning of year | - | - | 700,000 | 0.15 |
| Expired during the year | - | - | (700,000) | 0.15 |
| Outstanding - end of the year | - | - | - | - |
| Exercisable - end of the year | - | - | - | - |

Note 9 – Share options reserve (continued)

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

As at 31 December 2019 all share options issued have expired.

Other Share Options

| | 2019 | | 2018 | |
|---------------------------------|-------------------------|--------------------------------------|-------------------------|--------------------------------------|
| | Number of share options | Weighted average exercise price (\$) | Number of share options | Weighted average exercise price (\$) |
| Outstanding - beginning of year | 11,556,751 | 0.16 | 11,556,751 | 0.16 |
| Outstanding - end of the year | 11,556,751 | 0.16 | 11,556,751 | 0.16 |
| Exercisable - end of the year | - | - | - | - |

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

Note 10 – Intercompany liabilities

| | 2019 | 2018 |
|---|----------------|----------------|
| | US\$000 | US\$000 |
| Intercompany payable to Minera IRL S.A. | 412 | 48,245 |
| Balance at 31 December | 412 | 48,245 |

During the year ended 31 December 2019 the intercompany balance payable to its subsidiary Minera IRL SA decreased \$47,833,000 mainly due to the capital reduction of \$51,014,000 partially offset by an increase of \$3,181,000 due to:

- a.- \$1,891,000 of interest charged by Minera IRL SA, and
- b.- \$1,290,000 of payments made by Minera IRL SA on behalf of the Company.

There were no other intercompany transactions.

Note 11 – Trade and other payables

| | 2019 | 2018 |
|------------------------|----------------|----------------|
| | US\$000 | US\$000 |
| Fees and services | 151 | 171 |
| Other | 145 | 130 |
| Balance at 31 December | 296 | 301 |

Note 12 – Contingent liabilities

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