# Dynacor Gold Mines Inc.

Condensed Interim Consolidated Financial Statements

As at September 30, 2019 and for
the three-month and nine-month periods ended
September 30, 2019 and 2018
(in US dollars)
(Unaudited)

**UNAUDITED CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by, and are the responsibility of the Company's management.

The unaudited condensed interim consolidated financial statements of Dynacor Gold Mines Inc. as at September 30, 2019 and for the three-month and nine-months periods ended September 30, 2019 and 2018, have not been reviewed by the Company's external auditors.

*Jean Martineau*

Jean Martineau
President and Chief Executive Officer

*Leonard Teoli*

Leonard Teoli, CPA, CA
Vice President of finance and
Chief Financial Officer

**Dynacor Gold Mines Inc.**
Condensed Interim Consolidated Statements of Financial Position (Unaudited)
(Expressed in US dollars)

| | As at September 30, 2019 $ | As at December 31, 2018 $ |
|---|---|---|
| **ASSETS** | | |
| **CURRENT ASSETS** | | |
| Cash (Note 5) | **12,192,567** | 13,928,980 |
| Accounts receivables (Note 6) | **8,630,226** | 4,574,372 |
| Inventories (Note 7) | **8,014,667** | 6,169,196 |
| Prepaid expenses and other assets | **197,166** | 122,806 |
| | **29,034,626** | 24,795,354 |
| **NON-CURRENT ASSETS** | | |
| Property, plant and equipment (Note 8) | **21,114,368** | 22,612,209 |
| Right-of-use assets (Note 11) | **1,702,954** | - |
| Exploration and evaluation assets (Note 9) | **18,688,294** | 18,536,420 |
| Deferred tax assets | **105,980** | 131,199 |
| | **41,611,596** | 41,279,828 |
| **TOTAL ASSETS** | **70,646,222** | 66,075,182 |
| **LIABILITIES** | | |
| **CURRENT LIABILITIES** | | |
| Trade and other payables (Note 10) | **5,255,943** | 4,273,971 |
| Current tax liabilities | **655,304** | 389,477 |
| Current portion of lease liabilities (Note 11) | **613,219** | 436,973 |
| | **6,524,466** | 5,100,421 |
| **NON-CURRENT LIABILITIES** | | |
| Asset retirement obligations (Note 12) | **3,767,036** | 3,778,010 |
| Lease liabilities (Note 11) | **824,053** | 310,716 |
| | **4,591,089** | 4,088,726 |
| **TOTAL LIABILITIES** | **11,115,555** | 9,189,147 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 13 a)) | **20,696,389** | 20,958,860 |
| Contributed surplus (Notes 13 b) and c)) | **3,466,686** | 3,333,246 |
| Retained earnings | **35,367,592** | 32,593,929 |
| **TOTAL SHAREHOLDERS' EQUITY** | **59,530,667** | 56,886,035 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **70,646,222** | 66,075,182 |

Commitments (Note 18)

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

Approved by the Board of Directors,

| | |
|---|---|
| *(s) Jean Martineau* | *(s) Roger Demers FCPA,FCA,ASC* |
| Jean Martineau | Roger Demers FCPA, FCA, ASC |

## Dynacor Gold Mines Inc.

Condensed Interim Consolidated Statements of Comprehensive Income (Unaudited)
For the three-month and nine-month periods ended September 30, 2019 and 2018
(Expressed in US dollars)

| | Three-month periods ended September 30, | | Nine-month periods ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **$** | **$** | **$** | **$** |
| **Sales** | **33,667,375** | 24,439,118 | **79,283,300** | 78,984,313 |
| **Cost of sales (Note 15)** | **(29,052,984)** | (21,819,303) | **(69,321,061)** | (69,225,166) |
| **Gross operating margin** | **4,614,391** | 2,619,815 | **9,962,239** | 9,759,147 |
| General and administrative expenses (Note 15) | **(973,859)** | (1,182,194) | **(3,080,607)** | (3,638,500) |
| Other projects expenses | **(99,065)** | - | **(99,065)** | - |
| **Operating income** | **3,541,467** | 1,437,621 | **6,782,567** | 6,120,647 |
| Financial income (Note 15) | **63,427** | 12,728 | **115,909** | 24,403 |
| Financial expenses (Note 15) | **(53,584)** | (87,551) | **(171,712)** | (231,217) |
| Write-off of exploration and evaluation assets (Note 9) | **-** | - | **(38,646)** | (6,604) |
| Foreign exchange gain (loss) | **(70,895)** | (47,040) | **(101,618)** | (195,612) |
| **Income before income taxes** | **3,480,415** | 1,315,758 | **6,586,500** | 5,711,617 |
| Income taxes | **(1,179,874)** | (622,169) | **(2,349,225)** | (2,166,017) |
| **Net income and comprehensive income** | **2,300,541** | 693,589 | **4,237,275** | 3,545,600 |
| **Weighted average number of outstanding common shares (Note 14)** | | | | |
| Basic | **39,029,571** | 39,724,480 | **39,179,743** | 39,665,987 |
| Diluted | **39,513,708** | 40,061,662 | **39,519,474** | 40,876,615 |
| **Earnings per share (Note 14)** | | | | |
| Basic | **$0.06** | $0.02 | **$0.11** | $0.09 |
| Diluted | **$0.06** | $0.02 | **$0.11** | $0.09 |

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

## Dynacor Gold Mines Inc.

Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)
For the nine-month periods ended September 30, 2019 and 2018
(Expressed in US dollars)

| | Share Capital $ | Contributed surplus $ | Retained earnings $ | Total equity $ |
|---|---|---|---|---|
| **Balance, January 1, 2019** | **20,958,860** | **3,333,246** | **32,593,929** | **56,886,035** |
| Net income and comprehensive income for the period | - | - | 4,237,275 | 4,237,275 |
| | 20,958,860 | 3,333,246 | 36,831,204 | 61,123,310 |
| Share-based compensation expense (Note 13 b)) | - | 123,062 | - | 123,062 |
| Share-based compensation capitalized to exploration and evaluation assets (Note 13 b)) | - | 1,774 | - | 1,774 |
| Exercise of stock options (Note 13 a)) | 122,666 | (53,072) | - | 69,594 |
| Deferred share units expense (Note 13 c)) | - | 61,676 | - | 61,676 |
| Repurchase of common shares (Note 13 a) ii)) | (385,137) | - | (577,120) | (962,257) |
| Dividends (Note 13 d) i)) | - | - | (886,492) | (886,492) |
| Transactions with owners | (262,471) | 133,440 | (1,463,612) | (1,592,643) |
| **Balance, September 30, 2019** | **20,696,389** | **3,466,686** | **35,367,592** | **59,530,667** |

The adoption of IFRS 16 had no impact on the Company's Equity as at January 1, 2019 (Note 3).

| | Share Capital $ | Contributed surplus $ | Retained earnings $ | Total equity $ |
|---|---|---|---|---|
| **Balance, January 1, 2018** | **20,157,530** | **3,539,349** | **28,695,869** | **52,392,748** |
| Net income and comprehensive income for the period | - | - | 3,545,600 | 3,545,600 |
| | 20,157,530 | 3,539,349 | 32,241,469 | 55,938,348 |
| Share-based compensation expense (Note 13 b)) | - | 126,510 | - | 126,510 |
| Share-based compensation capitalized to exploration and evaluation assets (Note 13 b)) | - | 5,717 | - | 5,717 |
| Exercise of stock options (Note 13 a) i)) | 869,231 | (414,523) | - | 454,708 |
| Deferred share units expense (Note 13 c)) | - | 71,154 | - | 71,154 |
| Repurchase of common shares (Note 13 a)) | (100,297) | - | (150,458) | (250,755) |
| Dividend (Note 14d)) | - | - | (309,028) | (309,028) |
| Transactions with owners | 768,934 | (211,142) | (459,486) | 98,306 |
| **Balance, September 30, 2018** | **20,926,464** | **3,328,207** | **31,781,983** | **56,036,654** |

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

## Dynacor Gold Mines Inc.

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)
For the three-month and nine-month periods ended September 30, 2019 and 2018
(Expressed in US dollars)

| | Three-month periods ended September 30, | | Nine-month periods ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **$** | **$** | **$** | **$** |
| **Operating activities** | | | | |
| Net income | **2,300,541** | 693,589 | **4,237,275** | 3,545,600 |
| Adjustments for: | | | | |
| Provision for impairment of account receivables | **21,447** | 177,042 | **100,107** | 435,934 |
| Depreciation (Note 15) | **637,953** | 614,061 | **1,899,042** | 1,755,144 |
| Loss (gain) on disposal of property, plant and equipment and of right-of-use assets | **(21,458)** | 2,864 | **(29,369)** | 55,281 |
| Write-off of exploration and evaluation assets (Note 9) | **-** | - | **38,646** | 6,604 |
| Deferred tax (recovery) expense | **(27,709)** | 87,494 | **24,757** | 186,830 |
| Accretion expense on asset retirement obligations (Note 12) | **2,337** | 24,048 | **7,011** | 71,653 |
| Share-based compensation (Note 13 b)) | **15,609** | 18,320 | **123,062** | 126,510 |
| Deferred share unit expense (Note 13 c)) | **-** | - | **61,676** | 71,154 |
| Unrealized foreign exchange (gain) loss | **54,805** | 3,849 | **11,289** | 51,404 |
| | **2,983,525** | 1,621,267 | **6,473,496** | 6,306,114 |
| Change in working capital items (Note 16) | **(3,207,631)** | (545,825) | **(4,856,675)** | 2,428,079 |
| Net cash from (used in) operating activities | **(224,106)** | 1,075,442 | **1,616,821** | 8,734,193 |
| **Investing activities** | | | | |
| Proceeds from disposal of property, plant and equipment and right-of-use assets | **39,085** | - | **57,729** | 32,831 |
| Acquisition of property, plant and equipment | **(111,802)** | (224,298) | **(979,271)** | (1,191,579) |
| Additions to exploration and evaluation assets | **13,053** | (320,329) | **(145,509)** | (702,976) |
| Net cash used in investing activities | **(59,664)** | (544,627) | **(1,067,051)** | (1,861,724) |
| **Financing activities** | | | | |
| Payment on asset retirement obligations (Note 12) | **(16,857)** | (20,000) | **(17,985)** | (567,621) |
| Repayment of lease liabilities and interests' payments (Note 11) | **(177,873)** | (66,331) | **(506,899)** | (206,736) |
| Proceeds from the exercise of stock options (Note 13 a) i)) | **-** | 23,581 | **69,594** | 454,708 |
| Repurchase of common shares (Note 13 a) i)) | **(232,802)** | (143,903) | **(962,257)** | (250,755) |
| Dividends (Note 13 d)) | **(298,878)** | - | **(883,462)** | - |
| Net cash (used in) from financing activities | **(726,410)** | (206,653) | **(2,301,009)** | (570,404) |
| **Change in cash during the period** | **(1,010,180)** | 324,162 | **(1,751,239)** | 6,302,065 |
| Effect of exchange rate changes on cash | **(10,638)** | (9,649) | **14,826** | (18,450) |
| **Cash, beginning of the period** | **13,213,385** | 10,816,383 | **13,928,980** | 4,847,281 |
| **Cash, end of the period** | **12,192,567** | 11,130,896 | **12,192,567** | 11,130,896 |
| Income taxes paid related to operating activities | **726,905** | 147,548 | **1,848,632** | 1,151,469 |

Additional information on cash flows (Note 16)

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

## 1. Statute of incorporation and nature of activities

Dynacor Gold Mines Inc. ("Dynacor", the ultimate controlling company), an ore processing and exploration company active in Peru, incorporated under Part 1A of the Companies Act (Québec) and as of February 14, 2011, is governed under the Business Corporations Act (Québec). The Company's principal place of business is 625 René-Lévesque Blvd West, suite 1200, Montréal, Québec, Canada.

Dynacor, including its subsidiaries (collectively, the "Company"), produces gold and silver from ore purchased from local Peruvian miners which is processed at the Company's wholly owned processing plant. The Corporation derives all its sales from Peru. The Company does not have any mining producing properties.

The Company also hold interests in mineral properties in Peru that are currently in the exploration stage. The business of exploration, development and mining of minerals involves a high degree of risk and there can be no assurance that current exploration, development and mining plans will result in profitable mining operations. The recoverability of the carrying value of assets and the Company's continued existence is dependent upon the continuation of ore processing operations.

## 2. Statement of compliance with IFRS, basis of measurement and basis of consolidation

These condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* and does not include all the information required for full annual consolidated financial statements. Accordingly, certain information and disclosures normally included in the annual consolidated financial statements prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board have been omitted or condensed. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the financial position and performance of the Corporation since the last annual consolidated financial statements as at and for the year ended December 31, 2018.

These condensed interim consolidated financial statements are presented in United States dollars, which is the Company's functional currency. The functional currency has remained unchanged during the reporting periods.

These condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors (the "Board") on November 13, 2019.

### Basis of measurement

The condensed interim consolidated financial statements have been prepared on a historical cost basis.

### Basis of consolidation

The condensed interim consolidated financial statements include the accounts of Dynacor and its subsidiaries. Dynacor controls a subsidiary if it is exposed, or has rights, to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. All intercompany balances and transactions are eliminated on consolidation. Dynacor and its subsidiaries have a year end of December 31.

These condensed interim consolidated financial statements include the financial statements of Dynacor and its subsidiaries listed below:

| | Country of incorporation | Equity Interest |
|---|---|---|
| Minera Veta Dorada SAC | Peru | 100% |
| Compania Tumipampa SAC (*) | Peru | 100% |

(*) Up to April 30, 2018, date at which, Compania Tumipampa SAC was merged with, and absorbed by, Minera Veta Dorada SAC.

(Expressed in US dollars)

## 3. Significant accounting policies

The policies applied in these condensed interim consolidated financial statements are the same accounting policies and methods as those in our most recent audited annual financial statements except as noted below.

New standard adopted as at January 1, 2019

IFRS 16, *Leases* ("IFRS 16")

IFRS 16 "Leases" replaces IAS 17 "Leases" along with three Interpretations (IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases-Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease"). The new Standard has been applied using the modified retrospective approach, with the cumulative effect, if any, of adopting being recognised in equity as an adjustment to the opening balance of retained earnings for the current period. Prior periods have not been restated.

For contracts in place at the date of initial application, the Company has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4.

The Company has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019. At this date, the Company has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for any prepaid or accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Company has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16.

On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Company has applied the optional exemptions to not recognise right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term.

For those leases previously classified as finance leases, the right-of-use asset and lease liability are measured at the date of initial application at the same amounts as under IAS 17 immediately before the date of initial application.

On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognised under IFRS 16 was 5.7%.

The Company has benefited from the use of hindsight for determining lease term when considering options to extend and terminate leases.

The following is a reconciliation of total operating leases commitments at December 31, 2018 to the lease liabilities recognised at January 1, 2019:

| | **$** |
|---|---|
| Total operating lease commitments disclosed at December 31, 2018 | 670,600 |
| Less recognition exemption: leases with remaining lease term of less than 12 months | (82,260) |
| Operating lease liabilities before discounting | 588,340 |
| Discount using incremental borrowing rate | (143,896) |
| Operating lease liabilities | 444,444 |
| Reasonably certain extension options | 411,800 |
| Finance lease obligations | 747,689 |
| **Total leases liabilities recognized under IFRS 16 at January 1, 2019** | 1,603,933 |

The adoption of IFRS 16 had no impact on the Company's Equity as at January 1, 2019.

## 3. Significant accounting policies (continued)

Leases

Policy applicable from January 1, 2019

For any new contracts entered into on or after 1 January 2019, the Company considers whether a contract is, or contains a lease. A lease is defined as "a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration".

To apply this definition the Company assesses whether the contract meets three key evaluations which are whether:
• the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Company
• the Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract
• the Company has the right to direct the use of the identified asset throughout the period of use.

The Company assess whether it has the right to direct "how and for what purpose" the asset is used throughout the period of use.

*Measurement and recognition of leases*

At lease commencement date, the Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Company depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Company also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Company has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

## 3. Significant accounting policies (continued)

Policy applicable before January 1, 2019

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement. A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to the Company is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the property, plant and equipment or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of comprehensive income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term.

Exploration and evaluation assets

In May 2019, the Company signed mining and mineral purchase agreements with artisanal miners. Royalties generated are recorded as a reduction to deferred exploration and evaluation costs.

Other accounting policies relating to exploration and evaluation assets remain unchanged (refer to the most recent audited consolidated financial statements).

## 4. Judgments, estimates and assumptions

The preparation of consolidated financial statements requires the Company's management to make judgments, estimates and assumptions on reported amounts of assets and liabilities, and reported amounts of revenues and expenses. The estimates and assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may be substantially different.

The critical accounting, judgements, estimates and assumptions are the same as those in our most recent audited annual financial statements except as noted below.

Leases

Recognising leases requires judgement and use of estimates and assumptions. Judgement is used to determine whether there is reasonable certainty that a lease extension or cancellation option will be exercised. Furthermore, management estimates are used to determine the lease terms and the appropriate interest rate to establish the lease liability (refer to Note 3).

(Expressed in US dollars)

## 5. Cash

| | As at September 30, 2019 $ | As at December 31, 2018 $ |
|---|---|---|
| **Cash (equivalent in USD)** | | |
| United States dollars | **11,966,995** | 12,960,970 |
| Peruvian Nuevo soles | **109,606** | 566,966 |
| Canadian dollars | **115,966** | 401,044 |
| | **12,192,567** | 13,928,980 |

As at September 30, 2019, $187,887 has been given as collateral (none as at December 31, 2018) against stand-by letters of credit totaling $187,887.

## 6. Accounts receivables

| | As at September 30, 2019 $ | As at December 31, 2018 $ |
|---|---|---|
| Sales tax receivable (1) | **3,768,049** | 2,737,601 |
| Trade and other receivables (2) (3) | **3,823,249** | 1,218,078 |
| Advances to suppliers (3) (4) | **998,928** | 618,693 |
| | **8,630,226** | 4,574,372 |

(1) Subsequent to period end, all previous months filing claims were recovered for an amount of $3.6 million.

(2) In January 2018, a loan was made to the Company President and CEO (note 17). As at September 30, 2019, this loan and accrued interests amounting to $74,764 ($108,576 as at December 31, 2018) is included in trade and other receivables. On October 1st, 2019, an amount of $3.3 million was received from the September 30th export.

(3) At September 30, 2019, trade and other receivables and advances to suppliers are presented net of a provision for impairment amounting to $743,642 ($680,138 as at December 31, 2018).

(4) At October 31, 2019, $0.5 million was recovered from advances to suppliers.

The Company's gold sales were with one sole customer at the market prices in effect at the time of delivery. Economic dependence is mitigated as the Company can sell its gold to numerous clients worldwide.

## 7. Inventories

| | As at September 30, 2019 $ | As at December 31, 2018 $ |
|---|---|---|
| Ore | **2,588,444** | 1,011,865 |
| Gold in process | **5,139,823** | 4,819,178 |
| | **7,728,267** | 5,831,043 |
| Supplies | **286,400** | 338,153 |
| | **8,014,667** | 6,169,196 |

No inventories are carried at fair value less cost to sell at September 30, 2019 and December 31, 2018.

(Expressed in US dollars)

## 8. Property, plant and equipment

| | Land<br>$ | Buildings<br>$ | Plant & equipment<br>$ | Rolling stock<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, January 1, 2019 | 367,138 | 4,697,378 | 21,093,439 | 2,516,024 | 28,673,979 |
| Reclassification to right-of-use assets | - | - | - | (1,240,824) | (1,240,824) |
| Additions | 250,423 | 26,443 | 305,520 | 396,885 | 979,271 |
| Reclassification from right-of-use assets | - | - | - | 136,903 | 136,903 |
| Disposals | - | - | (4,414) | (74,665) | (79,079) |
| **Balance, September 30, 2019** | 617,561 | 4,723,821 | 21,394,545 | 1,734,323 | 28,470,250 |
| | | | | | |
| **Accumulated Depreciation** | | | | | |
| Balance, January 1, 2019 | - | 564,841 | 4,177,669 | 1,319,260 | 6,061,770 |
| Reclassification to right-of-use assets | | | | (321,790) | (321,790) |
| Depreciation | - | 193,807 | 1,233,118 | 143,308 | 1,570,233 |
| Depreciation capitalized as exploration and evaluation assets | - | - | 22,090 | 8,771 | 30,861 |
| Reclassification from right-of-use assets | - | - | - | 82,283 | 82,283 |
| Disposals | - | - | (3,543) | (63,932) | (67,475) |
| **Balance, September 30, 2019** | - | 758,648 | 5,429,334 | 1,167,900 | 7,355,882 |
| **Net book value, September 30, 2019** | **617,561** | **3,965,173** | **15,965,211** | **566,423** | **21,114,368** |

| | Land<br>$ | Buildings<br>$ | Plant & equipment<br>$ | Rolling stock<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| Balance, January 1, 2018 | 317,138 | 4,530,693 | 20,463,599 | 1,889,055 | 27,200,485 |
| Additions | 50,000 | 177,809 | 1,187,022 | 585,693 | 2,000,524 |
| Disposals | - | - | (217,813) | (325,010) | (542,823) |
| Other adjustments and reclassifications | - | (11,124) | (339,369) | 366,286 | 15,793 |
| **Balance, December 31, 2018** | 367,138 | 4,697,378 | 21,093,439 | 2,516,024 | 28,673,979 |
| | | | | | |
| **Accumulated Depreciation** | | | | | |
| Balance, January 1, 2018 | - | 461,314 | 2,626,826 | 872,399 | 3,960,539 |
| Depreciation | - | 260,683 | 1,813,199 | 335,702 | 2,409,584 |
| Depreciation capitalized as exploration and evaluation assets | - | - | 37,575 | 18,106 | 55,681 |
| Disposals | - | - | (112,149) | (267,678) | (379,827) |
| Other adjustments and reclassifications | - | (157,156) | (187,782) | 360,731 | 15,793 |
| **Balance, December 31, 2018** | - | 564,841 | 4,177,669 | 1,319,260 | 6,061,770 |
| **Net book value, December 31, 2018** | **367,138** | **4,132,537** | **16,915,770** | **1,196,764** | **22,612,209** |

As at December 31, 2018, included in rolling stock was rolling stock under finance leases with a carrying value of $919,034. With the adoption of IFRS 16 these rolling stocks are now classified under right-of-use assets (Note 11).

At the end of 2017, after more than a year of keeping the Huanca Metalex plant in care and maintenance mode and, considering the ore market conditions prevailing at that time and the ability for the Company to increase processing capacity at its new plant, the Company has taken the decision to definitively close its Huanca Metalex plant and initiate decommissioning and site restoration. Since December 31, 2017, the net book value of the Huanca Metalex plant is nil.

(Expressed in US dollars)

## 9. Exploration and evaluation assets

| | Exploration properties | | | |
|---|---|---|---|---|
| | Tumipampa | Anta | Others | Total |
| | $ | $ | $ | $ |
| **Mining rights** | | | | |
| Balance, January 1, 2019 | 1,340,773 | 192,084 | 27,479 | 1,560,336 |
| Write-off | (33,813) | - | (4,833) | (38,646) |
| **Balance, September 30, 2019** | 1,306,960 | 192,084 | 22,646 | 1,521,690 |
| **Deferred exploration and evaluation costs** | | | | |
| Balance, January 1, 2019 | 16,669,366 | 306,718 | - | 16,976,084 |
| Additions (1) | 190,255 | 265 | - | 190,520 |
| **Balance, September 30, 2019** | 16,859,621 | 306,983 | - | 17,166,604 |
| **TOTAL** | **18,166,581** | **499,067** | **22,646** | **18,688,294** |

(1) Including $98,522 of royalties deducted from deferred exploration and evaluation costs from the Tumipampa property.

| | Exploration properties | | | |
|---|---|---|---|---|
| | Tumipampa | Anta | Others | Total |
| | $ | $ | $ | $ |
| **Mining rights** | | | | |
| Balance, January 1, 2018 | 1,346,777 | 188,084 | 23,979 | 1,558,840 |
| Additions | - | - | 8,100 | 8,100 |
| Reclassification | - | 4,000 | (4,000) | - |
| Write-off | (6,004) | - | (600) | (6,604) |
| **Balance, December 31, 2018** | 1,340,773 | 192,084 | 27,479 | 1,560,336 |
| **Deferred exploration and evaluation costs** | | | | |
| Balance, January 1, 2018 | 15,582,612 | 302,705 | - | 15,885,317 |
| Additions | 1,074,482 | 4,013 | - | 1,078,495 |
| Transfer from deposits for exploration work | 12,272 | - | - | 12,272 |
| **Balance, December 31, 2018** | 16,669,366 | 306,718 | - | 16,976,084 |
| **Deposits for exploration work** | | | | |
| Balance January 1, 2018 | - | - | - | - |
| Additions | 12,272 | - | - | 12,272 |
| Transfer to deferred exploration and evaluation costs | (12,272) | - | - | (12,272) |
| **Balance, December 31, 2018** | - | - | - | - |
| **TOTAL** | **18,010,139** | **498,802** | **27,479** | **18,536,420** |

(Expressed in US dollars)

## 9. Exploration and evaluation assets (continued)

### Tumipampa property ("Tumipampa")

Tumipampa is 500 km from Lima, Peru, in the Circa district, Province of Abancay, department of Apurimac. At September 30, 2019 the Tumipampa project covers an area of 8,320 hectares. In 2019, 3 concessions were not renewed. The related mining rights were written-off.

During the year ended December 31, 2017, considering the inability to perform any exploration work on the Nicole concession (276 hectares), the Company decided not to make the final payment, which was due in January 2018, as per the contract with the owner of the concession. Therefore, the related mining rights ($175,000) were written off at December 31, 2017.

### Anta property ("Anta")

Anta is in the district of San Pedro, 72 km west of Nazca, within the Western Andean Cordillera in the Province of Lucanas, Department of Ayacucho. Anta includes five concessions that cover an area of 5,100 hectares and is a copper/silver exploration prospect.

## 10. Trade and other payables

| | As at September 30, 2019 $ | As at December 31, 2018 $ |
|---|---|---|
| Accounts payable and accrued liabilities (1) | **3,975,348** | 3,043,409 |
| Accrued profit sharing (2) | **641,373** | 759,961 |
| Wages and benefits | **639,222** | 470,601 |
| | **5,255,943** | 4,273,971 |

(1) Including $294,184 of dividends paid in October 2019 ($291,154 of dividends paid in January 2019).

(2) Under Peruvian labor laws, the Company is required to distribute 8% of its annual taxable income before tax to employees for each of its Peruvian subsidiaries. Amounts are accrued until December 31 and are paid in March of the following year.

(Expressed in US dollars)

## 11. Leases

The Company has leases for the land of the Chala plant, office spaces and some of its rolling stock. The leases have an initial term of 2 to 17 years and some have a renewal option after that date. The lease terms are negotiated individually and encompass a wide range of different terms and conditions.

Right-of-use assets

| | Land<br>$ | Building<br>$ | Rolling Stock<br>$ | Total<br>$ |
|---|---|---|---|---|
| **Costs** | | | | |
| Adjustment on adoption to IFRS 16 | 260,643 | 595,601 | - | 856,244 |
| Reclassification from Property, plant and equipment | - | - | 1,240,824 | 1,240,824 |
| Additions | - | 127,860 | 212,378 | 340,238 |
| Reclassification to Property, plant and equipment | - | - | (136,903) | (136,903) |
| Disposals | - | - | (35,153) | (35,153) |
| **Balance, September 30, 2019** | 260,643 | 723,461 | 1,281,146 | 2,265,250 |
| | | | | |
| **Accumulated Depreciation** | | | | |
| Reclassification from Property, plant and equipment | - | - | 321,790 | 321,790 |
| Depreciation | 11,332 | 109,339 | 208,138 | 328,809 |
| Depreciation capitalized as exploration and evaluation assets | - | - | 12,376 | 12,376 |
| Reclassification to Property, plant and equipment | - | - | (82,283) | (82,283) |
| Disposals | - | - | (18,396) | (18,396) |
| **Balance, September 30, 2019** | 11,332 | 109,339 | 441,625 | 562,296 |
| **Net book value, September 30, 2019** | **249,311** | **614,122** | **839,521** | **1,702,954** |

Lease liabilities

| | As at September 30, 2019<br>$ | As at December 31, 2018<br>$ |
|---|---|---|
| Balance, beginning of the period | **747,689** | 494,618 |
| Adoption of IFRS 16 | **856,244** | - |
| New leases | **340,238** | 567,591 |
| Repayment of lease liabilities and interests' payments | **(506,899)** | (314,520) |
| **Balance, end of the period** | **1,437,272** | 747,689 |

The future minimum lease payments due for the next years are as follows:

| | As at September 30, 2019<br>$ | As at December 31, 2018<br>$ |
|---|---|---|
| Within one year | **688,591** | 469,175 |
| 1 to 2 years | **320,026** | 284,977 |
| 2 to 5 years | **387,696** | 35,507 |
| After 5 years | **267,517** | - |
| **Total** | **1,663,830** | 789,659 |
| Less: implicit interest from 5.00% to 6.85% (2018 – 6.00% to 6.85%) | **(226,558)** | (41,970) |
| | **1,437,272** | 747,689 |
| Less: current portion | **(613,219)** | (436,973) |
| | **824,053** | 310,716 |

(Expressed in US dollars)

## 11. Leases (continued)

Lease payments not recognised as a liability

The Company has elected not to recognise a lease liability for short term leases (leases with an expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognised as lease liabilities and are expensed as incurred.

The expense relating to payments not included in the measurement of a lease liability is $29,400 for the three-month period ended September 30, 2019 ($88,100 for the nine-month period ended September 30, 2019) and relates to short term leases.

## 12. Asset retirement obligations

The table below presents the reconciliation of the provision for asset retirement obligations for the periods ended:

| | As at September 30, 2019 $ | As at December 31, 2018 $ |
|---|---|---|
| Balance, beginning of the period | **3,778,010** | 4,365,940 |
| Disbursement | **(17,985)** | (622,412) |
| Accretion of discounted cash flows | **7,011** | 34,482 |
| **Balance, end of the period** | **3,767,036** | 3,778,010 |

The provision for closure of production facilities and exploration projects represents the present value of the closure costs that are expected to be incurred between the years 2019 and 2038 for the Veta Dorada Plant, Tumipampa and the Metalex Plant. These estimates are based on studies prepared by independent advisers that meet the environmental regulations in effect. The provision for closure of the production facilities and exploration projects corresponds mostly to activities that must be carried out for restoring the areas affected by operation and production activities. The principal works to be performed correspond to earthworks, re-vegetation efforts and dismantling of the production facilities. Closure budgets are reviewed regularly to consider any significant change in the studies conducted. Nevertheless, the closure costs will depend on the market prices for the closure works required, which would reflect future economic conditions. Also, the time when the disbursements will be made depends on the useful life of the facilities.

As of September 30, 2019, the future value of the provision for closure of facilities and exploration projects is $5.9 million ($6.1 million as at December 31, 2018) which has been discounted using annual risk-free rates up 2.8% in periods of up to 19 years.

The table below presents the breakdown of the provision for asset retirement obligations for the periods ended:

| | As at September 30, 2019 $ | As at December 31, 2018 $ |
|---|---|---|
| Veta Dorada Plant | **3,489,767** | 3,482,756 |
| Tumipampa | **277,269** | 277,269 |
| Metalex Plant | **-** | 17,985 |
| **Balance, end of the period** | **3,767,036** | 3,778,010 |

The Company believes that this liability is sufficient to meet the current environmental protection laws approved by the MEM. As of September 30, 2019, the Company has constituted letters of credit in favor of the MEM for $1,426,000 ($2,216,144 as at December 31, 2018) to secure closure plans of its production facilities and exploration projects.

During the last quarter of 2017, the Company started the decommissioning of the Huanca Metalex Plant. The site restoration was completed during the first half of 2018 and the final Ministry of mines approval was obtained in September 2019.

(Expressed in US dollars)

## 13. Share capital

*a) Shares authorized*

Unlimited number of common shares, without par value.

Unlimited number of preferred shares, without par value, non-cumulative annual dividend of 8%, redeemable at their issue price, non-participating, non-voting.

*Issued and fully paid*

Movements in the Company's share capital during the nine-month periods ended September 30, 2019 and 2018, are as follows:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | **Numbers of common shares** | **Amount $** | **Numbers of common shares** | **Amount $** |
| Balance beginning of year | **39,524,977** | **20,958,860** | 38,827,594 | 20,157,530 |
| Exercise of share purchase options i) | **110,000** | **122,666** | 1,028,250 | 869,231 |
| Repurchase of common shares ii) | **(725,473)** | **(385,137)** | (190,667) | (100,297) |
| **Balance, end of period** | **38,909,504** | **20,696,389** | 39,665,177 | 20,926,464 |

i) During the nine-month period ended September 30, 2019, 110,000 share purchase options were exercised for a cash consideration of $69,594 under the share purchase plan (1,028,250 and $454,708 during the nine-month period ended September 30, 2018). Upon exercise, an amount of $53,072 ($414,523 for the nine-month period ended September 30, 2018), which had been attributed to those share purchase options, was reclassified from contributed surplus to share capital.

ii) In April 2018, the Company announced the implementation of a normal course issuer bid share buyback program (NCIB), through which the Company was able to purchase, for cancellation, up to 1,982,717 or approximately 5% of its outstanding common shares as of April 10, 2018, over the 12 month period beginning April 23, 2018 and ending April 22, 2019, when the bid expired, with a daily maximum of 12,692 common shares which is equal to 25% of the average daily trading volume on the TSX for the nine-month period ended March 31, 2018 except where purchases are made in accordance with the "block purchase exception" of the TSX rules.

In April 17, 2019, the Toronto Stock Exchange (TSX) has approved the new NCIB, under which Dynacor may purchase, for cancellation, up to 3,273,485 common shares or approximately 10% of its public float until April 16, 2020.

The extent to which Dynacor repurchases its shares and the timing of such repurchases depend upon market conditions and other corporate considerations, as determined by the Company's management team. The purchases are funded from existing cash balances.

For the nine-month period ending September 30, 2019, the Company has repurchased 725,473 common shares for a total cash consideration of $962,257 (CA$1,278,510), an average repurchase cost of $1.33 (CA$1.76) per share. Total cash consideration paid exceeded by $577,120 the respective book value of the shares repurchased. This excess was recorded as a reduction of retained earnings in the Consolidated Statement of Changes in Equity.

For the nine-month period ending September 30, 2018, the Company had repurchased 190 667 common shares for a total cash consideration of $250,755 (CA$326,987), an average repurchase cost of $1.32 (CA$1.71) per share. Total cash consideration paid exceeded by $150,458 the respective book value of the shares repurchased. This excess was recorded as a reduction of retained earnings in the Consolidated Statement of Changes in Equity.

Since April 23, 2018, the Company has repurchased 1,171,840 common shares for a total cash consideration of $1,520,711 (CA$ 2,006,771), an average repurchase cost of $1.30 (CA$1.71) per share.

(Expressed in US dollars)

## 13. Share capital (continued)

### *b) Share purchase options*

On August 14, 2007, the Board adopted a stock option plan (the "Plan") whereby they may grant to directors, officers, employees, or consultants options to acquire common shares up to 10% of the issued and outstanding common shares. The Board has the authority to determine the terms, limits, restrictions and conditions of the grant of options, to interpret the Plan and make all decisions relating thereto. The option exercise price is established by the Board and may not be lower than the market price of the common shares at the time of grant. At the June 20, 2017 annual meeting of shareholders, the shareholders approved a Board resolution authorizing an amendment to the Plan allowing the replenishment of 920,000 options previously issued under the Plan and that have already been exercised by their holders. This replenishment of options will allow the Corporation to issue additional options without having to increase the total amount of shares issuable under the Plan, which is 3,500,000 common shares. The options may be exercised during a period determined by the Board, which may vary, but will not exceed ten years from the date of the grant.

Movements in the Company's share purchase options during the nine-month periods ended September 30, 2019 and 2018, are as follows:

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | **Numbers of options** | **Weighted average exercise price** | **Number of options** | **Weighted average exercise price** |
| | | **CA$** | | **CA$** |
| Balance, beginning of period | **1,217,500** | **1.85** | 2,390,500 | 1.28 |
| Granted | **327,500** | **1.75** | 125,000 | 1.78 |
| Exercised | **(110,000)** | **0.85** | (1,028,250) | 0.56 |
| Cancelled | **(182,500)** | **1.45** | (154,250) | 2.15 |
| **Balance, end of period** | **1,252,500** | **1.92** | 1,333,000 | 1.77 |
| Exercisable options | 984,000 | 1.75 | 1,106,000 | 1.69 |

The weighted average share price for the share purchase options exercised during the nine-month period ended September 30, 2019, at the date of the exercise is CA$1.74 (CA$1.74 for the nine-month period ended September 30, 2018).

During the nine-month period ended September 30, 2019, 327,500 share purchase options were granted with a grant date fair value of $0.76 per share purchase option (125,000 with a grant date fair value of $0.86 per share purchase option during the nine-month period ended September 30, 2018). The table below shows the assumptions, or weighted average parameters, applied to the Black-Scholes option pricing model to determine share-based compensation costs over the life of the awards for share purchase options granted during this period.

| | **2019** | **2018** |
|---|---|---|
| Risk-free interest rate | 1.50% | 1.60% |
| Expected volatility | 55.00% | 65.00% |
| Expected life | 84 months | 84 months |
| Exercise price | CA$1.75 | CA$1.67 |
| Share price | CA$1.75 | CA$1.67 |
| Dividend yield | 2.50% | 0.00% |
| Forfeiture rate | 1.00% | 5.00% |

The volatility was estimated based on the historical share prices of Dynacor over the expected average life of the options.

For the three-month period ended September 30, 2019, the share-based compensation costs amounted to $15,609 ($19,207 for the three-month period ended September 30, 2018). This amount was fully was charged to the consolidated statement of comprehensive income ($19,207 for the three-month period ended September 30, 2018 of which $18,320 was charged to the consolidated statement of comprehensive income and of which $887 was capitalized to exploration and evaluation assets).

(Expressed in US dollars)

## 13. Share capital (continued)

*b) Share purchase options (continued)*

For the nine-month period ended September 30, 2019, the share-based compensation costs amounted to $124,836 ($132,227 for the nine-month period ended September 30, 2018) of which $123,062 was charged to the consolidated statement of comprehensive income ($126,510 for the nine-month period ended September 30, 2018) and $1,774 was capitalized to exploration and evaluation assets ($5,717 for the nine-month period ended September 30, 2018).

*c) Deferred share units "DSU"*

Effective May 11, 2015, the Company put in place the DSU Plan, whereby the Board may grant to its directors, senior officers and shareholders DSUs. DSUs are units that are credited to an eligible participant's account, the value of which, on a particular date, shall be equal to the fair market value of the Company's common share for such date. The Board has the authority to determine the number of DSUs to be awarded and the terms and conditions of each award. The number of shares that are reserved for issuance under the DSU Plan is limited to 500,000. DSUs can only be settled following departure from the Company in accordance with the terms of the DSU Plan.

| | **2019** | | **2018** | |
|---|---|---|---|---|
| | **Numbers of DSUs** | **Cost $** | **Numbers of DSUs** | **Cost $** |
| Balance, beginning of period | **270,094** | **372,034** | 160,025 | 229,819 |
| Granted | **47,340** | **61,676** | 50,518 | 71,154 |
| **Balance, beginning and end of period** | **317,434** | **433,710** | 210,543 | 300,973 |

For the three-month periods ended September 30, 2019 and 2018, the Company has not recorded any compensation costs relating to DSU's in the condensed interim consolidated statement of comprehensive income.

The share compensation expense related to DSUs amounted to $61,676 during the nine-month period ended September 30, 2019 ($71,154 for the nine-month period ended September 30, 2018).

*d) Dividends*

The following dividends were declared by the Company:
- September 5, 2019 - CA$0.01 per qualifying common share resulting in a total dividend amounting to $294,184 (CA$389,588) paid on October 3, 2019.
- June 5, 2019 - CA$0.01 per qualifying common share resulting in a total dividend amounting to $298,878 (CA$391,140) paid on July 3, 2019.
- March 12, 2019 - CA$0.01 per qualifying common share resulting in a total dividend amounting to $293,430 (CA$392,111) paid on April 3, 2019.

(Expressed in US dollars)

## 14. Earnings per share

Both the basic and diluted earnings per share have been calculated using the net income as the numerator, i.e. no adjustment to net income was necessary during the three-month and nine-month periods ended September 30, 2019 and 2018.

| | Three-month ended September 30, | | Nine-month ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| Net income for the period | **2,300,541** | $693,589 | **4,237,275** | $3,545,600 |
| Weighted average number of common shares outstanding | **39,029,571** | 39,724,480 | **39,179,743** | 39,665,987 |
| Dilutive share options | **484,137** | 337,182 | **339,731** | 1,210,628 |
| Weighted average number of outstanding shares for diluted earnings per share | **39,513,708** | 40,061,662 | **39,519,474** | 40,876,615 |
| Basic earnings per share | **$0.06** | $0.02 | **$0.11** | $0.09 |
| Diluted earnings per shares (1) | **$0.06** | $0.02 | **$0.11** | $0.09 |

(1) For the three-month period ended September 30, 2019, 515,000 share purchase options are excluded from diluted earnings per share since their exercise price are higher than the average share price for Dynacor shares during this period (832,500 for the three-month period ended September 30, 2018).

For the nine-month period ended September 30, 2019, 710,000 share purchase options are excluded from diluted earnings per share since their exercise price are higher than the average share price for Dynacor shares during this period (625,000 for the nine-month period ended September 30, 2018).

## 15. Information included in the consolidated statements of comprehensive income

The following table provides a breakdown of employee remuneration:

| | Three-month ended September 30 | | Nine-month ended September 30 | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **$** | **$** | **$** | **$** |
| **Salaries and short-term employee benefits** | | | | |
| Cost of Sales | **1,017,327** | 886,319 | **2,788,225** | 2,555,445 |
| General and administration expenses | **537,569** | 464,567 | **1,655,712** | 1,485,993 |
| Capitalized in exploration and evaluation assets | **22,491** | 132,436 | **147,205** | 266,437 |
| Salaries and short-term employee benefits | **1,577,387** | 1,483,322 | **4,591,142** | 4,307,875 |
| **Share-based compensation and DSU expense** | | | | |
| General and administration expenses | **15,609** | 18,320 | **184,738** | 197,664 |
| Capitalized in exploration and evaluation assets | **-** | 887 | **1,774** | 5,717 |
| | **15,609** | 19,207 | **186,512** | 203,381 |
| Total employee remuneration | **1,592,996** | 1,502,529 | **4,777,654** | 4,511,256 |

(Expressed in US dollars)

**15. Information included in the consolidated statements of comprehensive income (continued)**

| | Three-month ended September 30, 2019 | Three-month ended September 30, 2018 | Nine-month ended September 30, 2019 | Nine-month ended September 30, 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Cost of sales** | | | | |
| Ore | **25,095,894** | 17,752,516 | **57,867,914** | 56,326,309 |
| Salaries, benefits and other employee expenses | **1,098,491** | 961,777 | **3,035,451** | 2,788,169 |
| Production supplies | **887,529** | 880,644 | **2,490,299** | 2,662,483 |
| Transportation | **959,999** | 821,916 | **2,610,757** | 2,366,962 |
| Other production costs | **475,063** | 389,075 | **1,288,240** | 1,178,186 |
| Provision for impairment of accounts receivable | **21,447** | 77,042 | **100,107** | 135,934 |
| Depreciation of property, plant and equipment and of right-of-use assets | **576,374** | 592,613 | **1,728,974** | 1,697,994 |
| Peruvian profit-sharing expense | **284,358** | 134,922 | **519,965** | 459,624 |
| Variation of gold in process inventory | **(346,171)** | 208,798 | **(320,646)** | 1,609,505 |
| | **29,052,984** | 21,819,303 | **69,321,061** | 69,225,166 |

| | Three-month ended September 30, 2019 | Three-month ended September 30, 2018 | Nine-month ended September 30, 2019 | Nine-month ended September 30, 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **General and administrative expenses** | | | | |
| Salaries, benefits and other employee expenses | **537,569** | 464,567 | **1,655,712** | 1,485,993 |
| Office and other expenses | **186,277** | 366,753 | **551,869** | 813,539 |
| Provision for impairment of accounts receivable | **-** | 100,000 | **-** | 300,000 |
| Professional fees | **83,503** | 73,444 | **258,781** | 326,535 |
| Promotion and corporate development | **15,856** | 69,125 | **164,886** | 265,636 |
| Travel expenses | **53,184** | 58,337 | **135,606** | 141,320 |
| Peruvian profit-sharing expense | **81,861** | 31,648 | **129,015** | 107,813 |
| | **958,250** | 1,163,874 | **2,895,869** | 3,440,836 |
| Share-based remuneration: | | | | |
| Options | **15,609** | 18,320 | **123,062** | 126,510 |
| DSUs | **-** | - | **61,676** | 71,154 |
| | **973,859** | 1,182,194 | **3,080,607** | 3,638,500 |

| | Three-month ended September 30, 2019 | Three-month ended September 30, 2018 | Nine-month ended September 30, 2019 | Nine-month ended September 30, 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Financial incomes** | | | | |
| Interests and other financial incomes | **(63,427)** | (12,728) | **(115,909)** | (24,403) |
| **Financial expenses** | | | | |
| Interest on lease liabilities | **22,586** | 7,433 | **62,849** | 21,031 |
| Other interest and financial expenses | **28,661** | 56,070 | **101,852** | 138,533 |
| Accretion expense on asset retirement obligation | **2,337** | 24,048 | **7,011** | 71,653 |
| | **53,584** | 87,551 | **171,712** | 231,217 |

(Expressed in US dollars)

## 15. Information included in the consolidated statements of comprehensive income (continued)

| | Three-month ended September 30, 2019 | Three-month ended September 30, 2018 | Nine-month ended September 30, 2019 | Nine-month ended September 30, 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Depreciation** | | | | |
| Depreciation of property, plant and equipment | **511,884** | 592,613 | **1,526,489** | 1,697,994 |
| Depreciation of right-of-use assets | **64,490** | - | **202,485** | - |
| Depreciation included in costs of sales | **576,374** | 592,613 | **1,728,974** | 1,697,994 |
| Depreciation of property, plant and equipment | **18,415** | 21,448 | **43,744** | 57,150 |
| Depreciation of right-of-use assets | **43,164** | - | **126,324** | - |
| Depreciation included in general and administration expenses | **61,579** | 21,448 | **170,068** | 57,150 |
| | **637,953** | 614,061 | **1,899,042** | 1,755,144 |

**Income taxes**

For the three-month period ended September 30, 2019, the current income tax charge amounts to $1,204,547 ($535,018 for the three-period ended September 30, 2018) and the deferred income tax charge amounts to ($24,673) ($87,151 for the three-period ended September 30, 2018) and relates to origination and reversal of temporary differences mainly relating to fixed assets and exploration expenses.

For the three-month period ended September 30, 2019, the total tax income expense comprises $211,086 ($53,519 for the three-period ended September 30, 2018) of unused tax losses for which no deferred taxes were recognized.

For the nine-month period ended September 30, 2019, the current income tax charge amounts to $2,324,006 ($1,978,397 for the three-period ended September 30, 2018) and the deferred income tax charge amounts to $25,219 ($187,620 for the nine-period ended September 30, 2018) and relates to origination and reversal of temporary differences mainly relating to fixed assets and exploration expenses.

For the nine-month period ended September 30, 2019, the total tax income expense comprises $795,032 ($259,612 for the nine-period ended September 30, 2018) of unused tax losses for which no deferred taxes were recognized.

## 16. Information included in the statements of cash flows

| | Three-month ended September 30, 2019 | Three-month ended September 30, 2018 | Nine-month ended September 30, 2019 | Nine-month ended September 30, 2018 |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Changes in working capital items** | | | | |
| Accounts receivables | **(3,214,344)** | (1,378,464) | **(4,190,871)** | (724,823) |
| Current tax assets | **476,403** | 322,634 | **265,827** | 579,405 |
| Inventories | **(1,582,314)** | 137,248 | **(1,845,471)** | 1,806,803 |
| Prepaid expenses | **76,721** | (127,229) | **(74,360)** | (170,529) |
| Trade and other payables | **1,035,903** | 499,986 | **988,200** | 937,223 |
| | **(3,207,631)** | (545,825) | **(4,856,675)** | 2,428,079 |

(Expressed in US dollars)

## 17. Related party transactions and disclosures

### Key management personnel

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consists of members of the Company's Board of Directors, corporate officers, including the Company's Chief Executive Officer, Chief Financial Officer and Vice President Operations (since August 2018).

Remuneration attributed to key management personnel can be summarized as follows:

| | Three-month ended September 30, | | Nine-month ended September 30, | |
|---|---|---|---|---|
| | **2019** | **2018** | **2019** | **2018** |
| | **$** | **$** | **$** | **$** |
| Salaries, benefits and directors' fees | **219,111** | 187,494 | **730,412** | 593,339 |
| Share-based compensation (1) | **-** | 2,573 | **65,535** | 84,665 |
| | **219,111** | 190,067 | **795,947** | 678,004 |

(1) Represents the value of share purchase options which have vested during the period.

### Transactions

In January 2018, a loan of $158,000 (CA$198,000) was made to the Company President and CEO in order for him to exercise 600,000 share purchase options at a price of CA$0.26 which came to maturity.

As at September 30, 2019, the loan and accrued interests amount to $74,764 or CA$99,010 and will be fully reimbursed before the end of 2019.

### Other related parties

In the normal course of operations and at fair value, being the amount of consideration determined and agreed to by the related parties:

A firm of which an officer of the Company is a partner, charged legal fees amounting to $7,356 for the three-month period ended September 30, 2019 ($54,718 for the nine-month period ended September 30, 2019) ($9,425 and $42,880 respectively for the same periods of 2018).

A Company of which a director is the sole shareholder charged geological professional fees relating to other projects and amounting to $8,308 ($24,853 for the nine-month period ended September 30, 2019) ($4,872 and $8,575 for the same periods of 2018).

A Company of which a director is the sole shareholder charged consulting fees relating to the Chala plant and amounting to $7,426 of for the nine-month period ended September 30, 2018. No fees were charged for the three-month period ended September 30, 2018. No fees were charged in 2019.

A Director charged consulting fees relating to the revision of health, safety and environmental procedures and amounting to $15,407 for the three-month and nine-month periods ended September 30, 2019. No fees were charged for the three-month and nine-month periods ended September 30, 2018.

## 18. Commitments

The Company has short-term lease agreements (less than 12 months). As at September 30, 2019, future minimum lease payments required to meet obligations total $74,000.

## 19. Comparative figures

Certain comparative figures have been reclassed in order to be consistent with classification and presentation in the current period.