# CONSOLIDATED FINANCIAL STATEMENTS

## AS AT DECEMBER 31, 2016 AND 2015 AND FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

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## Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Brio Gold Inc. and subsidiaries (the "Company" or "Brio Gold") and all the information in this annual report are the responsibility of management and have been approved by the Board of Directors.

The consolidated financial statements have been prepared by management on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not exact since they include certain amounts based on estimates and judgements. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects. Management has prepared the financial information presented elsewhere in the annual report and has ensured that it is consistent with that in the financial statements.

Brio Gold maintains systems of internal accounting and administrative controls in order to provide, on a reasonable basis, assurance that the financial information is relevant, reliable and accurate and that the Company's assets are appropriately accounted for and adequately safeguarded. The Company's internal control over financial reporting as of December 31, 2016, is based on the criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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

The Audit Committee is appointed by the Board, and all of its members are independent directors. The Committee meets at least four times a year with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy itself that each party is properly discharging its responsibilities, and to review the quarterly and the annual reports, the financial statements and the external auditors' reports. The Committee reports its findings to the Board for consideration when approving the financial statements for issuance to the shareholders. The Committee also considers, for review by the Board and approval by the shareholders, the engagement or reappointment of the external auditors. The consolidated financial statements have been audited by Deloitte LLP, Chartered Professional Accountants, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. Deloitte LLP has full and free access to the Audit Committee.

**"Gil Clausen"**

*President and Chief Executive Officer and Director*

**"Joseph Longpré"**

*Chief Financial Officer*

# Independent Auditor's Report

To the Shareholders of Brio Gold Inc.

We have audited the accompanying consolidated financial statements of Brio Gold Inc., which comprise the consolidated balance sheets as at December 31, 2016 and December 31, 2015, and the consolidated statements of operations and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

**Management's Responsibility for the Consolidated Financial Statements**

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

**Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Brio Gold Inc. as at December 31, 2016 and December 31, 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

**/s/ Deloitte LLP**

Chartered Professional Accountants

March 13, 2017
Vancouver, Canada

**BRIO GOLD INC.**
**CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS**
**FOR THE YEARS ENDED DECEMBER 31,**

| *(In thousands of United States Dollars)* | | 2016 | 2015 (*Note 2(a)*) |
|---|---|---|---|
| **Revenues from mining operations** *(Note 27)* | $ | **232,356** | $ 161,567 |
| Cost of sales excluding depletion, depreciation and amortization *(Note 16)* | | **(144,736)** | (106,417) |
| **Gross margin excluding depletion, depreciation and amortization** | | **87,620** | 55,150 |
| Depletion, depreciation and amortization | | **(66,818)** | (50,342) |
| Impairment of operating mineral properties *(Note 11)* | | **(110,876)** | (12,717) |
| **Mine operating loss** | | **(90,074)** | (7,909) |
| **Expenses** | | | |
| General and administrative | | **(13,262)** | (15,794) |
| Reversal of impairment /(impairment) of non-operating mineral properties *(Note 11)* | | **96,217** | (7,360) |
| Other operating expenses *(Note 18)* | | **(18,500)** | (25,423) |
| **Operating loss** | | **(25,619)** | (56,486) |
| Foreign exchange (loss) /gain | | **(9,239)** | 26,727 |
| Finance expense *(Note 19)* | | **(5,280)** | (3,272) |
| **Loss before income taxes** | | **(40,138)** | (33,031) |
| Income tax recovery / (expense) *(Note 21)* | | **23,279** | (36,387) |
| **Net loss** | | **(16,859)** | (69,418) |
| **Other comprehensive income (loss)** | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Change in fair value of hedging instruments, net of tax | | 308 | — |
| **Total comprehensive loss** | | **(16,551)** | (69,418) |
| | | | |
| **Weighted average number of shares outstanding** *(Note 22)* | | **45,878,479** | 15,773,980 |
| **Net loss per share (basic and diluted)** *(Note 22)* | $ | **(0.37)** | $ (4.40) |

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

**BRIO GOLD INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31,**

| *(In thousands of United States Dollars)* | 2016 | 2015 *(Note 2(a))* |
|---|---|---|
| **Operating activities** | | |
| Loss before income tax expense | **$ (40,138)** | $ (33,031) |
| Adjustments to reconcile loss before income taxes to net operating cash flows: | | |
| Depletion, depreciation and amortization | **66,818** | 50,342 |
| Foreign exchange (gain)/loss | **9,239** | (26,727) |
| Finance expense *(Note 19)* | **5,280** | 3,272 |
| Net impairment of mineral properties *(Note 11)* | **14,659** | 20,077 |
| Other non-cash operating expenses *(Note 23 (b))* | **19,667** | 26,419 |
| Decommissioning, restoration and similar liabilities paid *(Note 14)* | **(2,128)** | (988) |
| Income taxes paid | **(2,927)** | (4,913) |
| Cash flows from operating activities before net change in working capital | **70,470** | 34,451 |
| Net change in working capital *(Note 23 (a))* | **(384)** | (22,683) |
| **Cash flows from operating activities** | **70,086** | 11,768 |
| **Investing activities** | | |
| Acquisition of Riacho dos Machados Mine *(Note 6)* | **(51,362)** | (6,000) |
| Property, plant and equipment expenditures | **(67,981)** | (32,433) |
| **Cash flows used in investing activities** | **(119,343)** | (38,433) |
| **Financing activities** | | |
| Increase in Yamana's net investment | — | 31,586 |
| Receipt of loan from Yamana *(Note 13)* | **51,361** | — |
| **Cash flows from financing activities** | **51,361** | 31,586 |
| Effect of foreign exchange on cash | **944** | (955) |
| **Increase in cash and cash at end of year** | **3,048** | 3,966 |
| Cash, beginning of year | **3,966** | — |
| **Cash, end of year** | **$ 7,014** | $ 3,966 |

Supplementary cash flow information *(Note 23)*

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

**BRIO GOLD INC.**
**CONSOLIDATED BALANCE SHEETS**
**AS AT DECEMBER 31**

| *(In thousands of United States Dollars)* | | 2016 | | 2015 |
|---|---|---|---|---|
| **Assets** | | | | |
| ***Current assets:*** | | | | |
| Cash | **$** | **7,014** | $ | 3,966 |
| Trade and other receivables *(Note 7)* | | **154** | | 6,921 |
| Inventories *(Note 8)* | | **29,620** | | 24,180 |
| Derivative related assets *(Note 20(b))* | | **1,328** | | — |
| Other current assets *(Note 10)* | | **12,777** | | 6,800 |
| | | **50,893** | | 41,867 |
| ***Non-current assets:*** | | | | |
| Property, plant and equipment *(Note 11)* | | **481,746** | | 428,129 |
| Deferred tax assets *(Note 21 b)* | | **6,167** | | — |
| Other financial assets *(Note 9)* | | **—** | | 6,000 |
| Other non-current assets *(Note 10)* | | **2,893** | | 4,186 |
| **Total assets** | **$** | **541,699** | $ | 480,182 |
| | | | | |
| **Liabilities** | | | | |
| ***Current liabilities:*** | | | | |
| Trade and other payables *(Note 12)* | **$** | **56,066** | $ | 32,676 |
| Income taxes payable | | **2,998** | | 2,220 |
| Other financial liabilities | | **1,414** | | 699 |
| Other provisions and liabilities *(Note 13)* | | **5,243** | | 11,034 |
| | | **65,721** | | 46,629 |
| ***Non-current liabilities:*** | | | | |
| Decommissioning, restoration and similar liabilities *(Note 14)* | | **36,871** | | 20,919 |
| Deferred tax liabilities *(Note 21 (b))* | | **11,413** | | 39,004 |
| Other non-current provisions and liabilities *(Note 13)* | | **4,902** | | 1,363 |
| **Total liabilities** | | **118,907** | | 107,915 |
| | | | | |
| **Equity** | | | | |
| Share capital *(Note 15)* | | **427,858** | | 367,750 |
| Reserves | | **70,675** | | 63,399 |
| Deficit | | **(75,741)** | | (58,882) |
| **Total equity** | | **422,792** | | 372,267 |
| **Total equity and liabilities** | **$** | **541,699** | $ | 480,182 |

Contractual commitments, contingencies and related parties *(Notes 25, 26 and 27)*.

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

**BRIO GOLD INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

| *(In thousands of United States Dollars)* | Share capital | Reserves | Deficit | Total equity |
|---|---|---|---|---|
| **Balance at January 1, 2015** | **$ 1** | **$ —** | **$ (114)** | **$ (113)** |
| Net loss | — | — | (69,418) | (69,418) |
| Transactions with owners | | | | |
| Reorganization *(Note 2(b))* | | — | 10,650 | 10,650 |
| Issued for cash and acquisition of mining assets | 367,749 | 58,754 | — | 426,503 |
| Vesting of restricted share units | — | 4,645 | — | 4,645 |
| **Balance as at December 31, 2015** | **$ 367,750** | **$ 63,399** | **$ (58,882)** | **$ 372,267** |
| **Balance at January 1, 2016** | **$ 367,750** | **$ 63,399** | **$ (58,882)** | **$ 372,267** |
| Net loss | — | — | (16,859) | (16,859) |
| Transactions with owners: | | | | |
| Issued on settlement of related party loan *(Note 15)* | 60,108 | — | — | 60,108 |
| Change in fair value of hedging instruments, net of tax | — | 308 | — | 308 |
| Vesting of restricted share units *(Note 15)* | — | 6,968 | — | 6,968 |
| **Balance as at December 31, 2016** | **$ 427,858** | **$ 70,675** | **$ (75,741)** | **$ 422,792** |

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

## 1. NATURE OF OPERATIONS

Brio Gold Inc. (the "Company" or "Brio Gold") has a registered office at 2020-22 Adelaide Street West, Toronto, Ontario, Canada, M5H 0A9. The Company's ultimate parent company was Yamana Gold Inc. ("Yamana") which owned 100% of the Company prior to the offering of purchase rights described below. The Brio Gold shares commenced trading on the Toronto Stock Exchange under the trading symbol "BRIO" on December 28, 2016.

On December 23, 2016, Yamana closed an offering of purchase rights ("Rights Offering") pursuant to which Yamana has sold a total of 17,324,507 Brio Gold common shares pursuant to the transactions at a price of C$3.25 per share. As a result of the completion of these transactions, Brio Gold is now a standalone public company. Yamana continues to be the controlling shareholder of Brio Gold. From an operational perspective, Brio Gold is separately managed, and has a separate board of directors.

The Company was incorporated on July 11, 2014 and is engaged in the mining and sale of gold, including exploration, extraction, processing, and mine reclamation. The Company operates in Brazil and holds four principal mining assets; Pilar, Mineração Fazenda Brasileiro, Mineração Riacho dos Machados Ltda, and Santa Luz. Commercial production started in October 2014 for Pilar and over 25 years ago for Mineração Fazenda Brasileiro. The acquisition of Mineração Riacho dos Machados Ltda in April 2016 added a third operating mine. In October 2016, the Company has made a positive decision to advance the Santa Luz project to the execution phase and move forward with the re-start of the operation.

## 2. BASIS OF PREPARATION AND PRESENTATION

### (a) Statement of compliance

These consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards ("IFRS").

The consolidated financial statements have been prepared on a going concern basis using historical cost except for derivative financial instruments, which are remeasured to fair value at the end of each reporting period and certain property, plant and equipment that is carried at net recoverable value at December 31, 2016.

The consolidated financial statements are presented in United States Dollars, which is the Company's functional and presentation currency, and all values are rounded to the nearest thousand except where otherwise indicated.

The financial information for the periods prior to August 1, 2015 is presented based on the historical financial information for the Company, and Pilar, Mineração Fazenda Brasileiro, and Santa Luz (collectively, the "Businesses") as previously reported by Yamana. For the period after Brio's acquisition of the Businesses in June and August 2015, the results are based on the actual consolidated financial statements of Brio.

These consolidated financial statements were authorized for issuance by the Board of Directors of the Company on February 15, 2017.

**(b) Continuity of interests**

As described above, Brio was incorporated on July 11, 2014 by Yamana and in June and August 2015, the Company acquired the Businesses from Yamana. Yamana directly controlled the Businesses prior to their acquisition by Brio and continues to control the Businesses subsequent to the initial public offering through its interests in the Company. In accordance with the Company's accounting policy, the common control acquisitions of the Businesses are reflected in the Consolidated Financial Statements as assets acquired and liabilities assumed at Yamana's carrying values prior to their acquisition.

To reflect this continuity of interests, these consolidated financial statements provide comparative information of the Businesses acquired from Yamana for the period prior to Brio's acquisition of them, as previously reported by Yamana. The economic and accounting impact of contractual relationships between the Company and Yamana has been accounted for prospectively.

On the transfer of the Businesses amounts due to Yamana were settled at an amount less than the carrying value of the Businesses, resulting in a $10.65 million capital contribution which has been recorded through equity.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies summarized below have been applied consistently in all material respects in preparing the consolidated financial statements.

**(a) Basis of Consolidation**

The Consolidated Financial Statements include the financial statements of Brio Gold Inc. and the following significant entities:

| | | **Interest** |
|---|---|---|
| | **Country of incorporation** | **December 31, 2016** |
| Fazenda Brasileiro Desenvolvimento Mineral Ltda. | Brazil | **100%** |
| Pilar de Goias Desenvolvimento Mineral S.A | Brazil | **100%** |
| Santa Luz Desenvolvimento Mineral LTDA | Brazil | **100%** |
| Brio Gold Mineracao S.A | Brazil | **100%** |
| Mineração Riacho Dos Machados Ltda | Brazil | **100%** |
| Brazil Holdings Cooperatie U.A | Netherlands | **100%** |
| Fazenda Holdings BV | Netherlands | **100%** |
| C1 Holdings BV | Netherlands | **100%** |
| Pilar Holdings BV | Netherlands | **100%** |
| Brio Holdings Ltd. | Barbados | **100%** |
| Brio Gold Inc. | Canada | **100%** |
| 2426271 Ontario Inc. | Canada | **100%** |
| Brio Gold USA Inc. | Canada | **100%** |

The financial statements of entities which are controlled by the Company through voting equity interests, referred to as subsidiaries, are consolidated. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Control is determined to be achieved if, and only if, the Company has:

- Power over the investee (i.e., existing rights providing the ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee;
- The ability to use its power over the investee to affect its returns.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. Consolidation of an investee begins when the Company obtains control over the investee and ceases when the Company loses control of the investee. Assets, liabilities, income and expenses of an investee are included in the Consolidated Financial Statements from the date the Company gains control until the date the Company ceases to control the investee

All intercompany transactions have been eliminated on consolidation. The Company does not have any material off-balance sheet arrangements, except as noted in Contractual Commitments (*Note 25).*

**(b) Foreign Currency Translation**

The Company's mining operations which are also subsidiaries, operate primarily within an economic environment where the functional currency is the United States dollar. Transactions in foreign currencies are translated to the functional currency at exchange rates in effect at the dates of the transactions. Monetary assets and liabilities of the Company's operations denominated in a currency other than the United States dollar are translated into United States dollars at the exchange rate prevailing as at the balance sheet date. Non-monetary assets and liabilities are translated at historical exchange rates prevailing at each transaction date. Revenue and expenses are translated at the average exchange rates prevailing during the month, with the exception of depletion, depreciation and amortization which is translated at historical exchange rates. Exchange gains and losses from translation are included in earnings. Foreign exchange gains and losses and interest and penalties related to tax, if any, are reported within the income tax expense line.

**(c) Operating Segments**

The Company's senior management team, performs planning, reviews operation results, assesses performance and makes resource allocation decisions based on the segment structure described in Note 24 at an operational level on a number of measures, which include mine operating earnings, production levels and unit production costs. The Company also relies its management team in Brazil where the Company's key mining operations are located. Segment results that are reported to the Company's senior management team include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

**(d) Financial Instruments**

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the financial instrument. All financial instruments are measured at fair value on initial recognition. Measurement in subsequent periods depends on whether the financial instrument has been classified as fair value through profit or loss ("FVTPL"), loans and receivables or other financial liabilities.

Loans and receivables, and other financial liabilities are measured at amortized cost and are amortized using the effective interest method. At the end of each reporting period, the Company determines if there is objective evidence that an impairment loss on financial assets measured at amortized costs has been incurred. If objective evidence indicates that an impairment loss for such assets has incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The amount of the loss is recognized in profit or loss.

Financial assets and financial liabilities which are classified as FVTPL are measured at fair value with changes in those fair values recognized as finance income/expense.

*Derivative Instruments and Hedging*

Derivative instruments are recorded at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contracts. Changes in the fair values of derivative instruments are recognized in finance income/expense with the exception of derivatives designated as effective cash flow hedges.

For cash flow hedges that qualify under the hedging requirements of IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"), the effective portion of any gain or loss on the hedging instrument is recognized in other comprehensive income (OCI) and the ineffective portion is reported as an unrealized gain (loss) on derivatives contracts as finance income/expense in the Statement of Operations.

The Company, from time to time, may enter into currency forward contracts and "zero-cost collar" option trading strategy to manage the foreign exchange exposure of the operating and capital expenditures associated with its international operations. The Company tests the hedge effectiveness quarterly. Effective unrealized changes in fair value are recorded in OCI. Ineffective changes in fair value and changes in time value of options are recorded in earnings. At settlement, the realized changes are accounted for at trade date and recorded as follows:

- Amount related to hedging of operating expenditures is included in cost of sales to offset the foreign exchange effect recorded by the mines.
- Amount related to hedging of capital expenditures is included in capitalized purchases of goods or services to offset the foreign exchange recorded by the mines or development projects.

*Termination of Hedge Accounting*

Hedge accounting is discontinued prospectively when:

- the hedge instrument is sold, terminated or exercised;
- the hedge no longer meets the criteria for hedge accounting; and
- the Company revokes the designation.

The Company considers de-recognition of a cash flow hedge when the related forecast transaction is no longer expected to occur. If the Company revokes the designation, the cumulative gain or loss on the hedging instrument that has been recognized in OCI from the period when the hedge was effective remains separately in equity until the forecast transaction occurs or is no longer expected to occur. Otherwise, the cumulative gain or loss on the hedge instrument that has been recognized in OCI from the period when the hedge was effective is reclassified from equity to profit or loss.

**(e) Revenue Recognition**

Revenue from the sale of precious metals, gold and silver, is recognized at the fair value of the consideration received and when all significant risks and rewards of ownership pass to the purchaser, usually on the transfer of title, including delivery of the product, there is a fixed or determinable selling price and collectability is reasonably assured.

**(f) Income Taxes**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in the statement of operations except to the extent it relates to items recognized directly in equity or in OCI, in which case the related taxes are recognized in equity or OCI.

Current income tax is the expected tax payable or receivable on the taxable income or loss for the year, which may differ from earnings reported in the statement of operations due to items of income or expenses that are not currently taxable or deductible for tax purposes, using tax rates substantively enacted at the reporting date.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent they can be controlled and that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

**(g) Cash**

Cash consists of cash on hand and cash on deposit with banks.

**(h) Inventories**

Inventories consisting of product inventories, work-in-process (metal-in-circuit and gold-in-process) and ore stockpiles are valued at the lower of the cost of production and net realizable value. Net realizable value is calculated as the difference between estimated costs to complete production into a saleable form and the estimated future precious metal price based on prevailing and long-term metal prices.

The cost of production includes an appropriate proportion of depreciation and overhead. Work-in-process (metal-in-circuit and gold-in-process) represents inventories that are currently in the process of being converted to a saleable product. The assumptions used in the valuation of work-in-process inventories include estimates of metal contained and recoverable in the ore stacked on leach pads, the amount of metal stacked in the mill circuits that is expected to be recovered from the leach pads, the amount of gold in these mill circuits and an assumption of the precious metal price expected to be realized when the precious metal is recovered. If the cost of inventories is not recoverable due to decline in selling prices or increases in the costs of completion or the estimated costs to be incurred to make the sale, the Company would be required to write-down the recorded value of its work-in-process inventories to net realizable value.

Ore in stockpiles is comprised of ore extracted from the mine and available for further processing. Costs are added to ore in stockpiles at the current mining cost per tonne and removed at the accumulated average cost per tonne. Costs are added to ore on the heap leach pads based on current mining costs and removed from the heap leach pad as ounces are recovered in process at the plant based on the average cost per recoverable ounce on the heap leach pad. Although the quantities of recoverable gold placed on the heap leach pads are reconciled by comparing the grades of ore placed on the heap leach pads to the quantities of gold actually recovered, the nature of the leaching process inherently limits the ability to precisely monitor inventory levels. As such, engineering estimates are refined based on actual results over time. Variances between actual and estimated quantities resulting from changes in assumptions and estimates that do not result in write-downs to net realizable value are accounted for on a prospective basis. The ultimate recovery of gold from each heap leach pad will not be known until the leaching process is concluded.

Inventories of materials and supplies expected to be used in production are valued at the lower of cost and net realizable value. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is clear evidence of an increase in net realizable value because of changed economic circumstances, the amount of write-down is reversed. Write-downs of inventory and reversals of write-downs are reported as a component of current period costs.

**(i) Property, Plant and Equipment**

i. *Land, Building, Plant and Equipment*

Land, building, plant and equipment are recorded at cost, less accumulated depreciation and accumulated impairment losses. The cost is comprised of the asset's purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management and the estimated decommissioning and restoration costs associated with the asset.

The depreciable amount of building, plant and equipment is amortized on a straight-line basis to the residual value of the asset over the lesser of mine life or estimated useful life of the asset. Each part of an item of building, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately if its useful life differs. Useful life of building, plant and equipment items range from two to fifteen years, but do not exceed the related estimated mine life based on proven and probable mineral reserves and the portion of mineral resources that management expects to become mineral reserves in the future and be economically extracted.

| | Depreciation Method | Useful Life |
|---|---|---|
| Building | Straight Line | 4 to 15 years |
| Machinery and equipment | Straight Line | 2 to 7 years |
| Vehicles | Straight Line | 3 to 5 years |
| Furniture and office equipment | Straight Line | 2 to 10 years |
| Computer equipment and software | Straight Line | 3 to 5 years |
| Land | Not depreciated | |

The Company reviews the useful life, depreciation method, residual value and carrying value of its building, plant and equipment at least annually.

Expenditures that extend the useful lives of existing facilities or equipment are capitalized and amortized over the remaining useful lives of the assets. Repairs and maintenance expenditures are expensed as incurred.

ii. *Exploration, Evaluation Assets and Depletable Producing Properties*

The Company's tangible exploration and evaluation assets are comprised of mineral resources and exploration potential. The value associated with mineral resources and exploration potential is the value beyond proven and probable mineral reserves.

Exploration and evaluation assets acquired as part of an asset acquisition or a business combination are recorded as tangible exploration and evaluation assets and are capitalized at cost, which represents the fair value of the assets at the time of acquisition determined by estimating the fair value of the property's mineral reserves, mineral resources and exploration potential at such time.

The value of such assets when acquired is primarily a function of the nature and amount of mineralized material contained in such properties. Exploration and evaluation stage mineral interests represent interests in properties that potentially contain mineralized material consisting of measured, indicated and inferred mineral resources; other mine exploration potential such as inferred mineral resources not immediately adjacent to existing mineral reserves but located around and near mine or project areas; other mine-related exploration potential that is not part of measured, indicated and inferred mineral resources; and any acquired right to explore and develop a potential mineral deposit.

Exploration and evaluation expenditures incurred by the Company are capitalized at cost if management determines that probable future economic benefits will be generated as a result of the expenditures. Expenditures incurred before the Company has obtained legal rights to explore a specific area of interest are expensed. Costs incurred for general exploration that are either not project-specific or do not result in the acquisition of mineral properties are considered greenfield expenditures and charged to expense. Brownfield expenditures, which typically occur in areas surrounding known deposits and/or re-exploring older mines using new technologies to determine if greater mineral reserves and mineral resources exist, are capitalized.

Exploration expenditures include the costs incurred in either the initial exploration for mineral deposits with economic potential or in the process of obtaining more information about existing mineral deposits.

Evaluation expenditures include the costs incurred to establish the technical feasibility and commercial viability of developing mineral deposits identified through exploration activities or by acquisition. Evaluation expenditures include the cost of:

- acquiring the rights to explore;
- establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable mineral reserve;
- determining the optimal methods of extraction and metallurgical and treatment processes;
- studies related to surveying, transportation and infrastructure requirements;
- permitting activities; and
- economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, pre-feasibility and final feasibility studies.

The values assigned to the tangible exploration and evaluation assets are carried at acquired costs until such time as the technical feasibility and commercial viability of extracting the mineral resource is demonstrated, which occurs when the related project or component of a mineral reserve or mineral resource that does not form part of the mine plan of a producing mine is considered economically feasible for development. At that time, the property and the related costs are reclassified as part of the development costs of a producing property not yet subject to depletion, and are capitalized. Assessment for impairment is conducted before reclassification.

Depletion or depreciation of those capitalized exploration and evaluation costs and development costs commences upon completion of commissioning of the associated project or component. Depletion of mining properties and amortization of preproduction and development costs are calculated and recorded on a unit-of-production basis over the estimate of recoverable ounces. The depletable costs relating to the ore body or component of the ore body in production are multiplied by the number of ounces produced divided by the estimated recoverable ounces, which includes proven and probable mineral reserves of the mine and the portion of mineral resources expected to be classified as mineral reserves and economically extracted. Management assesses the estimated recoverable ounces used in the calculation of depletion at least annually, or whenever facts and circumstances warrant that an assessment should be made. Changes to estimates of recoverable ounces and depletable costs including changes resulting from revisions to the Company's mine plans and changes in metal price forecasts can result in a change in future depletion rates.

The Company assesses and tests its exploration and evaluation assets and mining properties for impairment, and subsequent reversal of impairment, at least annually or when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Costs related to areas of interest abandoned are written off when such a decision is made. An impairment assessment of the exploration and evaluation assets is conducted before the reclassification or transfer of exploration and evaluation assets to depletable producing properties.

**(j) Impairment of Non-Current Assets**

The Company assesses annually and at the end of each reporting period whether there is any indication, from external and internal sources of information, that an asset or cash generating unit (“CGU”) may be impaired.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. The Company defines a CGU as an area of interest. An area of interest is an area of similar geology; an area of interest includes exploration tenements/licenses which are geographically close together, are managed by the same geological management group and have similar prospectively. An area of interest may be categorized as project area of interest or an exploration area of interest as defined by the geology/exploration team of the Company. A project area of interest represents an operating mine or a mine under construction and its nearby exploration properties, which are managed by the Company's operation group. An exploration area of interest represents a portfolio or pool of exploration properties which are not adjacent to an operating mine or a mine under construction; an exploration area of interest is managed by the Company’s exploration group.

Information the Company considers as impairment indicators include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mineral properties. Internal sources of information include the manner in which property and plant and equipment are being used or are expected to be used and indications of economic performance of the assets, historical exploration and operating results. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties.

If indication of impairment exists, the Company estimates the recoverable amount of the asset or CGU to determine the amount of impairment loss. For exploration and evaluation assets, indicators include but are not limited to, continuous downward trend in metal prices resulting in lower in situ market values for exploration potential, expiration of the right to explore, substantive expenditure in the specific area is neither budgeted nor planned, and if the entity has decided to discontinue exploration activity in the specific area.

When an impairment review is undertaken, recoverable amount is assessed by reference to the higher of 1) value in use and 2) fair value less costs to sell (“FVLCS”). The best evidence of fair value is the value obtained from an active market or binding sale agreement. Where neither exists, fair value is based on the best information available to reflect the amount the Company could receive for the CGU in an arm's length transaction. This is often estimated using discounted cash flow techniques. Where recoverable amount is assessed using discounted cash flow techniques, the resulting estimates are based on detailed mine and/or production plans. For value in use, recent cost levels are considered, together with expected changes in costs that are compatible with the current condition of the business and which meet the requirements of IAS 36. Assumptions underlying fair value estimates are subject to significant risks and uncertainties. Where third-party pricing services are used, the valuation techniques and assumptions used by the pricing services are reviewed by the Company to ensure compliance with the accounting policies and internal control over financial reporting of the Company. The Company assesses annually and at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount and considers the reversal of the impairment loss recognized in prior periods.

**(k) Borrowing Costs**

Interest on borrowings related to qualifying assets including construction or development projects is capitalized until substantially all activities that are necessary to make the asset ready for its intended use are complete. This is usually when the Company declares completion of commissioning at the mine. All other borrowing costs are charged to earnings in the period incurred.

**(l) Decommissioning, Restoration and Similar Liabilities**

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as finance cost.

Decommissioning, restoration and similar liabilities are a type of provision associated with the retirement of a long-lived asset that the Company has acquired, constructed, developed and/or used in operations. Reclamation obligations on the Company's mineral properties are recorded as a decommissioning, restoration and similar liabilities. These include the dismantling and demolition of infrastructure and the removal of residual materials and remediation of disturbed areas. These estimated obligations are provided for in the accounting period when the related disturbance occurs, whether during the mine development or production phases at the present value of estimated future costs to settle the obligations. The costs are estimated based on mine closure plan. The cost estimates are updated annually during the life of the operation to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations), and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures that may occur upon decommissioning, restoration and similar liabilities. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

The amortization or 'unwinding' of the discount applied in establishing the present value of decommissioning, restoration and similar liabilities is charged to the consolidated statement of operations as finance expense in each accounting period. The initial decommissioning, restoration and similar liabilities together with other movements in the provisions for decommissioning, restoration and similar liabilities, including those resulting from new disturbance, updated cost estimates, changes to the estimated lives of operations and revisions to discount rates are capitalized within property, plant and equipment. The capitalized costs are amortized over the life of the mine on a unit-of-production basis.

**(m) Business Combinations**

A business combination requires that the assets acquired and liabilities assumed constitute a business. A business consists of inputs and processes applied to those inputs that have the ability to create outputs. Although businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business as the Company considers other factors to determine whether the set of activities and assets is a business. A transaction does not qualify as a business combination when significant inputs, processes, and outputs that together constitute a business were not identified; the transaction is then accounted for as a purchase of assets and assumption of liabilities.

Business combinations are accounted for using the acquisition method whereby the identifiable assets acquired and the liabilities assumed are recorded at acquisition-date fair values; non-controlling interests in an acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or present ownership instrument's proportionate share on the recognized amount of the acquiree's net identifiable assets.

The excess of (i) total consideration transferred by the Company, measured at fair value, including contingent consideration, and (ii) the non-controlling interests in the acquiree, over the acquisition-date fair value of the net of the assets acquired and liabilities assumed, is recorded as goodwill. If the fair value attributable to the Company's share of the identifiable net assets exceeds the cost of acquisition, the difference is recognized as a gain in the consolidated statement of operations.

Should the consideration be contingent on future events, the preliminary cost of the acquisition recorded includes management's best estimate of the fair value of the contingent amounts expected to be payable. Preliminary fair values of net assets are finalized within one year of the acquisition date with retrospective restatement to the acquisition date as required.

The information necessary to measure the fair values as at the acquisition date of assets acquired and liabilities assumed requires management to make certain judgements and estimates about future events, including but not limited to estimates of mineral reserves and mineral resources acquired, exploration potential, future operating costs and capital expenditures, future metal prices and future foreign exchange rates. Changes to the preliminary measurements of assets and liabilities acquired are retrospectively adjusted when new information is obtained until the final measurements are determined within one year of the acquisition date.

## 4. CRITICAL JUDGMENTS AND ESTIMATION UNCERTAINTIES

The preparation of consolidated financial statements in conformity with IFRS requires the Company's management to make judgments, estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the financial statements. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may differ from those estimates.

### (a) Critical Judgments in the Application of Accounting Policies

Information about critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the consolidated financial statements are as follows:

**Impairment of Long Lived and Financial Assets**

In the determination of carrying values and impairment of long lived and financial assets, management looks at the higher of value in use and fair value less costs to sell in the case of long lived assets and at objective evidence, significant or prolonged decline of fair value on financial assets indicating impairment, respectively. These determinations and their individual assumptions require that management make a decision based on the best available information at each reporting period. During the year of 2016, the Company recognized a non-cash impairment loss on certain mining properties in the amount of $110.9 million (December 31, 2015 - $20.1 million) and a reversal on previously recognized impairments of $96.2 million (December 31, 2015 - $nil).

**Capitalization of Exploration and Evaluation Costs**

Management has determined that exploration and evaluation costs incurred during the year have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise and existing permits. During the period ended December 31, 2016, the Company capitalized a total of $11.2 million (period ended December 31, 2015 - *$6.3 million*) of exploration and evaluation expenditures.

**Recoverable Ounces**

The carrying amounts of the Company's mining properties are depleted based on recoverable ounces contained in proven and probable mineral reserves plus a portion in mineral resources. The Company includes a portion of mineral resources where it is considered probable that those mineral resources will be economically extracted. Changes to estimates of recoverable ounces and depletable costs including changes resulting from revisions to the Company's mine plans and changes in metal price forecasts can result in a change in future depletion rates.

The figures for mineral reserves and mineral resources are determined in accordance with National Instrument 43-101 Standards of Disclosure for Mineral Projects, issued by the Canadian Securities Administrators. This National Instrument lays out the standards of disclosure for mineral projects including rules relating to the determination of mineral reserves and mineral resources. There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company's control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Differences between management's assumptions including economic assumptions

such as metal prices and market conditions could have a material effect in the future on the Company's financial position and financial performance.

**Determination of Economic Viability of a Project**

Management has determined that costs associated with projects under construction or developments have future economic benefits and are economically recoverable. In making this judgment, management has assessed various sources of information including but not limited to the geologic and metallurgic information, history of conversion of mineral deposits to proven and probable mineral reserves, scoping and feasibility studies, proximity of operating facilities, operating management expertise, existing permits and life of mine plans.

**Determination of Functional Currency**

According to IFRS, the determination of functional currency is based on the primary economic environment in which the entity operates and is normally the one in which it primarily generates and expends cash. The Company considers the following factors in determining functional currency:

- The currency that mainly influences sales prices for goods and services (often the currency in which sales prices for its goods and services are denominated);
- The currency of the country whose competitive forces and regulations mainly determine the sales prices of its goods and services; and
- The currency that mainly influences labour, material and other costs of providing goods or services.

If the above factors are mixed or unclear the Company also considers additional factors, which include: the currency in which funds from financing activities are generated, and the currency in which receipts from operating activities are usually retained.

Based on evaluation against the aforementioned criteria and other factors, the Company has concluded that the functional currency of the Company and its subsidiaries is the United States dollar.

**(b) Key Sources of Estimation Uncertainty in the Application of Accounting Policies**

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment are included in the following notes:

**Mineral Reserve and Mineral Resource Estimates**

To extend the lives of its mines and projects, ensure the continued operation of the business and realize its growth strategy, it is essential that the Company continues to realize its existing identified mineral reserves, convert mineral resources into mineral reserves, increase its mineral resource base by adding new mineral resources from areas of identified mineralized potential, and/or undertake successful exploration or acquire new mineral resources.

There are numerous uncertainties inherent in estimating mineral reserves and mineral resources, including many factors beyond the Company’s control. Such estimation is a subjective process, and the accuracy of any mineral reserve or mineral resource estimate is a function of the quantity and quality of available data and of the assumptions made and judgments used in engineering and geological interpretation. Short-term operating factors relating to the mineral reserves, such as the need for orderly development of the ore bodies or the processing of new or different ore grades, may cause the mining operation to be unprofitable in any particular accounting period. Lower market prices, increased production costs, reduced recovery rates and other factors may result in a revision of its mineral reserve estimates from time to time or may render the Company’s mineral reserves uneconomic to exploit, which may materially and adversely affect the results of operations or financial condition. Mineral reserve data are not indicative of future results of operations. Evaluation of mineral reserves and mineral resources occurs from time to time and they may change depending on further geological interpretation, drilling results and metal prices. The Company regularly evaluates its mineral resources and it often determines the merits of increasing the reliability of its overall mineral resources.

**Impairment of Mineral Properties**
While assessing whether any indications of impairment exist for mineral properties, consideration is given to both external and internal sources of information. Information the Company considers include changes in the market, economic and legal environment in which the Company operates that are not within its control and affect the recoverable amount of mineral properties. Internal sources of information include the manner in which property and plant and equipment are being used or are expected to be used and indications of economic performance of the assets, historical exploration and operating results. Estimates include but are not limited to estimates of the discounted future after-tax cash flows expected to be derived from the Company's mining properties, costs to sell the mining properties and the discount rate. Reductions in metal price forecasts, increases in estimated future costs of production, increases in estimated future capital costs, reductions in the amount of recoverable mineral reserves and mineral resources and/or adverse current economics can result in a write-down of the carrying amounts of the Company's mineral properties.

**Estimation of Provision for Liabilities**
The Company assesses its provision for liabilities other than decommissioning and restoration costs when new information becomes available. Provisions are liabilities that are uncertain in timing and amount. The Company records a provision when: (1) the Company has a present obligation (legal or constructive) as a result of past events; (2) when it is possible that an outflow of resources embodying economic benefits will be required to settle the obligation; and (3) a reliable estimate can be made of the amount of obligation.

**Income Taxes and Recoverability of Potential Deferred Tax Assets**
In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, and expected timing of reversals of existing temporary differences. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operating activities and the application of existing tax laws in each jurisdiction. The Company considers relevant tax planning opportunities that are within the Company's control, are feasible and within management's ability to implement. The Company reassesses unrecognized income tax assets at each reporting period.

Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized.

**Inventory Valuation**
Finished goods, work-in-process, heap leach ore and stockpile ore are valued at the lower of the production costs or net realizable value. The assumptions used in the valuation of work-in process inventories include estimates of gold contained in the ore stacked on leach pads, assumptions of the amount of gold stacked that is expected to be recovered from the leach pads, the amount of gold in the mill circuits and assumption of the gold price expected to be realized when the gold is recovered. If these estimates or assumptions prove to be inaccurate, the Company could be required to write-down the recorded value of its work-in-process inventories, which would reduce the Company's earnings and working capital.

**Contingencies**

Refer to Note 26, Contingencies to the consolidated financial statements.

## 5. RECENT ACCOUNTING PRONOUNCEMENTS

Certain pronouncements have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods after December 31, 2016. Pronouncements that are not applicable to the Company have been excluded from this note.

The following pronouncements have been issued but are not yet effective:

(a) IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") - The Standard is effective for annual reporting periods beginning on or after January 1, 2018 for all entities. The Company has completed a preliminary assessment of the impact of adopting IFRS 15. The Company generates revenue mainly from selling precious metals. Typical for the mining industry, each metal sale transaction is stand-alone and without multiple element arrangements. The point in the sales transactions where revenue is recognized are concluded to be essentially the same for precious metal streams under IFRS 15 and IAS 18 *Revenue*. In general, no significant impact from the adoption of IFRS 15 is expected. The Company is currently assessing the two transition methods allowed by the new Standard, namely, the full retrospective method in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors,* and the modified retrospective method with the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of retained earnings or other component of equity as appropriate.

(b) IFRS 16 *Leases* - The standard is effective for annual reporting periods beginning January 1, 2019 for public entities. Early application is permitted for companies that also apply IFRS 15. The Company is assessing the impact on the adoption of this Standard.

(c) IFRS 9 *Financial Instruments* ("IFRS 9") - The Standard provides a revised model for recognition and measurement of financial instruments and a single, forward-looking 'expected loss' impairment model. IFRS 9 also includes a substantially reformed approach to hedge accounting. It is effective for annual reporting periods beginning January 1, 2018 for public entities. The Company has completed a preliminary assessment of the impact of adopting IFRS 9 and it is not expected to have a significant impact on the Company's financial position nor its results of operations.

(d) IFRIC Interpretation 22 *Foreign Currency Transactions and Advance Consideration* ("IFRIC 22") - On December 8, 2016, the IASB issued IFRIC 22, which addresses the exchange rate to use in transactions that involve advance consideration paid or received in a foreign currency. The Standard provides guidance on how to determine the date of the transaction for the purpose of determining the spot exchange rate used to translate the asset, expense or income on initial recognition that relates to, and is recognized on the de-recognition of, a non-monetary prepayment asset or a non-monetary deferred income liability. It is effective January 1, 2018. The Company is currently assessing the impact on the adoption of this Standard.

## 6. ACQUISITION OF MINERAL INTERESTS

On February 17, 2016, Brio Gold entered into an Assignment and Assumption Agreement and a Restructuring Agreement pursuant to which it would ultimately acquire all right, title and interests in Mineração Riacho dos Machados Ltda ("MRDM") from Macquarie Bank Limited ("Macquarie"), which held the rights and interests in a loan facility extended to Carpathian Gold Inc ("Carpathian") the owner of MRDM. MRDM owns and operates the Riacho Dos Machados ("RDM") mine which is an open-pit heap-leach gold mine located in Minas Gerais State, Brazil. In these financial statements, the transactions referenced above were entered into to achieve the ultimate objective of acquiring MRDM.

On April 29, 2016, the Company closed on the restructuring procedures and concurrently attained control of MRDM for approximately $53.9 million in total cash consideration, excluding acquisition related costs of $3.5 million which have been recognized in other operating expenses in the Statements of Operations for the year ended December 31, 2016.

The Company has recognized its interest in the MRDM assets, liabilities, revenues and expenses in accordance with the Company's rights and obligations prescribed by the transaction, as a business combination. In accordance with the Company's accounting policy, the Company has recognized the acquired identifiable assets and liabilities.

Total consideration paid by the Company was as follows:

| | | |
|---|---|---|
| **Cash** | **$** | **53,862** |

The following table summarizes the total fair values of assets and liabilities acquired:

| | | |
|---|---|---|
| Cash | $ | 258 |
| Net working capital acquired *(i)* | | 2,323 |
| Property, plant and equipment (including mineral interests) | | 57,415 |
| Non-current liabilities | | (6,134) |
| **Net identifiable assets** | **$** | **53,862** |

*(i)* Included in net working capital acquired is accounts receivables of $2.6 million at fair value which were collected subsequent to closing of the MRDM acquisition.

MRDM's revenues and net losses are $40.5 million and $3.4 million, respectively in 2016 since the acquisition date. Revenues and net loss for the Company would have been $241.0 million and $11.1 million, respectively, for the twelve month period ended December 31, 2016, if the acquisition had taken place on January 1, 2016.

## 7. TRADE AND OTHER RECEIVABLES

| *As at December 31st,* | | **2016** | | **2015** |
|---|---|---|---|---|
| Trade receivable | **$** | **154** | $ | 57 |
| Metal sales receivable from Yamana Gold Inc. (Note 27) | | — | | 6,864 |
| | **$** | **154** | $ | 6,921 |

There is no provision of doubtful accounts in any of the periods presented.

## 8. INVENTORIES

| *As at December 31,* | | **2016** | | **2015** |
|---|---|---|---|---|
| Product inventories | **$** | **3,518** | $ | 2,405 |
| Metal in circuit and gold in process | | **4,923** | | 2,678 |
| Ore stockpiles | | **1,369** | | 1,730 |
| Materials and supplies | | **19,810** | | 17,367 |
| | **$** | **29,620** | $ | 24,180 |

The amount of inventories recognized as an expense in 2016 was $144.7 million ($106.4 million for the period ended December 31, 2015) and is included in cost of sales, excluding depletion, depreciations, and amortization. For the year ended December 31, 2016, a total charge of $1.2 million was recorded to adjust inventory to net realizable value (2015 - $0.4 million recovery) which is included in cost of sales.

## 9. OTHER FINANCIAL ASSETS

| As at December 31, | 2016 | 2015 |
|---|---|---|
| Option agreement *(i)* | — | 6,000 |

*(i)* Balance represents a $6 million payment for the option to purchase certain rights and interests with respect to Mineração Riacho dos Machados Ltda ("MRDM"). The option was exercised February 17, 2016. See Note 6, "Acquisition of Mineral Interests" for more information.

## 10. OTHER ASSETS

| As at December 31, | | 2016 | | 2015 |
|---|---|---|---|---|
| Tax credits receivables | $ | **7,096** | $ | 4,726 |
| Advances to suppliers | | **6,360** | | 4,552 |
| Other long-term advances | | **2,214** | | 1,708 |
| | **$** | **15,670** | $ | 10,986 |
| | | | | |
| Current | **$** | **12,777** | $ | 6,800 |
| Non-current | | **2,893** | | 4,186 |
| | **$** | **15,670** | $ | 10,986 |

## 11. PROPERTY, PLANT AND EQUIPMENT

| | | Mining property costs subject to depletion | | Mining property costs not subject to depletion *(ii)* | | Land, building, plant & equipment *(i)(ii)* | | Total |
|---|---|---|---|---|---|---|---|---|
| **Cost, January 1, 2015** | **$** | **443,155** | **$** | **687,860** | **$** | **55,920** | **$** | **1,186,935** |
| Additions | | 20,282 | | 3,125 | | 9,026 | | 32,433 |
| Transfers, reclassifications and other non-cash movements | | (110,999) | | (75,965) | | 186,263 | | (701) |
| Change in decommissioning, restoration & similar liabilities | | (7,414) | | (4,249) | | — | | (11,663) |
| **Cost, December 31, 2015** | **$** | **345,024** | **$** | **610,771** | **$** | **251,209** | **$** | **1,207,004** |
| Additions | | 46,601 | | 43,658 | | 29,084 | | 119,343 |
| Transfers, reclassifications and other non-cash movements | | 6,046 | | 2,289 | | (2,449) | | 5,886 |
| Change in decommissioning, restoration & similar liabilities | | 6,202 | | 1,893 | | — | | 8,095 |
| Disposals | | — | | (110) | | (2,016) | | (2,126) |
| **Cost, December 31, 2016** | **$** | **403,873** | **$** | **658,501** | **$** | **275,828** | **$** | **1,338,202** |
| **Accumulated depreciation and impairment, January 1, 2015** | **$** | **102,508** | **$** | **568,386** | **$** | **37,562** | **$** | **708,456** |
| Depreciation | $ | 30,011 | $ | — | $ | 20,331 | $ | 50,342 |
| Impairment charges | | 1,044 | | 19,033 | | — | | 20,077 |
| **Accumulated depreciation and impairment, December 31, 2015** | | **133,563** | | **587,419** | | **57,893** | | **778,875** |
| Depreciation | $ | 36,779 | $ | — | $ | 26,357 | $ | 63,136 |
| Impairment charges / (reversals) | | 107,573 | | (92,913) | | — | | 14,659 |
| Transfers, reclassification and other non-cash movements | | — | | 581 | | (635) | | (54) |
| Disposal | | — | | (2) | | (158) | | (160) |
| **Accumulated depreciation and impairment, December 31, 2016** | **$** | **277,915** | **$** | **495,085** | **$** | **83,456** | **$** | **856,455** |
| Carrying value, December 31, 2015 | $ | 211,461 | $ | 23,352 | $ | 193,316 | $ | 428,129 |
| **Carrying value, December 31, 2016** | **$** | **125,958** | **$** | **163,416** | **$** | **192,372** | **$** | **481,746** |

*(i)* Included in land, building, plant and equipment is $6.5 million of land which is not subject to depreciation (2015 - *$5.9 million)*.

*(ii)* Balance includes amounts related to Santa Luz for $129.8 million which is not subject to depreciation as the mine is in care and maintenance (2015 - *$33.2 million*).

**Impairment of Mineral Properties**

In accordance with the Company's accounting policies and processes, each asset or CGU is assessed annually and at the end of each reporting period as to whether there are any indications, from external and internal sources of information, that an asset or CGU may be impaired, requiring an adjustment to the carrying value. Refer to *Note 3(j) Significant Accounting Policies - Impairment of Non-Current Assets*.

Consistent with its policy, annually and at the end of each reporting period, the Company assesses whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Company estimates the recoverable amount and considers the reversal of the impairment loss recognized in prior periods up to the carrying amount of the CGU (net of amortization or depreciation) as if no impairment been recognized in the past. As at December 31, 2016, the Company has determined that there is an indication that an impairment loss recognized in prior periods should be reversed in part for Santa Luz given the significant developments that have been made towards restarting the project.

During the year ended December 31, 2016, the Company recorded impairment charges on operating mines of $110.9 million (2015 - $12.7 million), and a reversal of previous impairments on non-operating mines of $96.2 million (2015 - $7.4 million impairment charge) as follows:

| ***(In thousands)*** | **2016** | | | 2015 | | |
|---|---|---|---|---|---|---|
| **CGU** | **Pre-Tax Impairment / (Reversal)** | **After-Tax Impairment /(Reversal)** | **Net Book Value - as at Dec. 31** | Pre-Tax Impairment / (Reversal) | After-Tax Impairment /(Reversal) | Net Book Value - as at Dec. 31, |
| Pilar | **110,876** | **94,531** | **212,753** | — | — | 335,636 |
| Santa Luz | **(96,217)** | **(96,217)** | **129,788** | 7,360 | 4,800 | 33,219 |
| Fazenda Brasileiro | — | — | **67,219** | 12,717 | 10,800 | 59,274 |
| **Total mineral property impairments** | **$ 14,659** | **$ (1,686)** | **$ 409,760** | $ 20,077 | $ 15,600 | $ 428,129 |
| **Total mineral property impairments operating mines** | **$ 110,876** | | | $ 12,717 | | |
| **Total mineral property (reversal)/impairments non-operating** | **$ (96,217)** | | | $ 7,360 | | |

During the fourth quarter of 2016, the Company performed its annual assessment of indication of impairment, and concluded that testing of impairment and impairment reversal was required for Pilar and Santa Luz given significant revisions to the mine plan of the aforementioned properties.

For Pilar and Santa Luz, the impairment and impairment reversal align the book value with the recoverable value of each mine, resulting in the overall value of the Company remaining relatively unchanged. The impairment at Pilar is a result of a revised mine plan following a thorough Brio Gold management review. For Santa Luz, reversal of the previous impairment is predominantly due to the decision to recommission the mine following a positive Technical Report, which included the reclassification of Mineral Resources into Mineral Reserves, as their ability to be mined profitably was demonstrated, as well as confirmation of improved gold recoveries.

In the context of the current metal price trends, the Company noted that prior year assumptions of $1,250 per ounce of gold continue to be supportable and are within the range of acceptable assumptions based on objective independent data. Macro-economic factors were supportive of the Company maintaining its metal price parameters used in the prior year. Additionally,

exploration potential and land interest multiples of exploration concessions are also within the supportable range, hence, no revisions were deemed necessary.

The Company performed the impairment test based on updated life of mine after-tax cash flow projections which were revised for production based on current estimates of recoverable mineral reserves and mineral resources, recent operating and exploration results, exploration potential, future operating costs, capital expenditures and long-term foreign exchange rates. The Company examined future cash flows, the intrinsic value beyond proven and probable mineral reserves, value of land holdings, as well as other factors, which are determinants of commercial viability of each mining property in its portfolio.

**Impairment Testing: Key Assumptions and Sensitivities**

The determination of FVLCS, with level 3 input of the fair value hierarchy, includes the following key applicable assumptions:

- *Production volumes:* In calculating the FVLCS, the production volumes incorporated into the cash flow models based on detailed life-of-mine plans and take into account development plans for the mines agreed by management as part of the long-term planning process. Production volumes are dependent on a number of variables, such as: the recoverable quantities; the production profile; the cost of the development of the infrastructure necessary to extract the reserves; the production costs; the contractual duration of mining rights; and the selling price of the commodities extracted. As each producing mine has specific reserve characteristics and economic circumstances, the cash flows of the mines are computed using appropriate individual economic models and key assumptions established by management. The production profiles used were consistent with the reserves and resource volumes approved as part of the Company's process for the estimation of proved and probable reserves, resource estimates and in certain circumstances, include expansion projects. These are then assessed to ensure they are consistent with what a market participant would estimate.
- *Commodity prices:* Forecast commodity prices are based on management's estimates and are derived from forward price curves and long-term views of global supply and demand, building on past experience of the industry and consistent with external sources. Estimated long-term gold price of $1,250 per ounce (2015 - $1,250 per ounce) have been used to estimate future revenues.
- *Discount rates:* In calculating the FVLCS, real post-tax discount rates in the range of 7% and 12% (2015: 4.75% and 8%) based on the Company's weighted average cost of capital ("WACC"). The WACC used in the models is in real terms, consistent with the other assumptions in the models.
- *Exchange rates:* Foreign exchange rates are estimated with reference to external market forecasts and based on observable market data including spot and forward values.

**Sensitivity Analysis**

The Company has performed a sensitivity analysis to identify the impact of changes in long-term metal prices and operating costs which are key assumptions that impact the impairment calculations. The Company assumed a 1% change in the metal price assumptions and a 1% change in certain cost inputs while holding all other assumptions constant. Based on the results of the impairment testing performed during the quarter, the CGU's sensitivity to changes in these key assumptions appear below. Generally there is a direct correlation between metal prices and industry cost levels as a significant decline in metal prices will often be mitigated by a corresponding decline in industry operating input cost levels. The Company believes that adverse changes in metal price assumptions would impact certain other inputs in the life of mine plans which may offset, to a certain extent, the impact of these adverse metal price changes.

| *(In thousands)* | | Change in recoverable value from a 1% change in metal prices | | Change in recoverable value from a 1% change in operating costs |
|---|---|---|---|---|
| Pilar | $ | 6,760 | $ | 3,460 |
| Santa Luz | $ | 6,292 | $ | 4,067 |

The model used to determine impairment is based on management's best assumptions using material and practicable data which may generate results that are not necessarily indicative of future performance. In addition, in deriving this analysis, the Company has made assumptions based on the structure and relationships of variables as at the balance sheet date which may differ due to fluctuations throughout future years with all other variables assumed to remain constant. Actual changes in one variable may contribute to changes in another variable, which may amplify or offset the individual effect of each assumption.

Although these estimates are based on management's best knowledge of the amounts, events or actions, the actual results may differ from these estimates.

## 12. TRADE AND OTHER PAYABLES

| *As at December 31,* | | 2016 | | 2015 |
|---|---|---|---|---|
| Trade payables *(i)* | $ | **43,459** | $ | 21,748 |
| Other payables | | **12,607** | | 10,928 |
| | $ | **56,066** | $ | 32,676 |

*(i)* No interest is charged on the trade payables for the first 60 days from the date of invoice.

## 13. OTHER PROVISIONS AND LIABILITIES

| *As at December 31,* | | 2016 | | 2015 |
|---|---|---|---|---|
| Loans payable to Yamana Gold Inc. *(i)* | $ | **—** | $ | 8,149 |
| Other taxes payable | | **3,190** | | 573 |
| Current portion of decommissioning, restoration and similar liabilities *(Note 14)* | | **1,893** | | 1,989 |
| Other | | **5,062** | | 1,686 |
| | $ | **10,145** | $ | 12,397 |
| | | | | |
| Current | $ | **5,243** | $ | 11,034 |
| Non-current | | **4,902** | | 1,363 |
| | $ | **10,145** | $ | 12,397 |

(i) On February 11, 2015, the Company entered into a working capital revolving loan agreement with Yamana Gold Inc. The terms were as follows:

- The loan was due at the earlier of 18 months after the date that the mines are legally transferred to the subsidiaries of the Company, a change of control or an equity financing event.
- The loan was interest bearing at LIBOR + 2.75%, payable at the maturity of the loan.

On March 24, 2016, the Company entered into a loan agreement with Yamana Gold Inc to finance the acquisition of MRDM. The terms were as follows:

- The loan was due on demand.
- The loan was interest bearing at LIBOR + 3.3%.

On September 30, 2016, both of the preceding loans mentioned above, which had a combined total of $60.1 million, were settled in exchange for 89,027,429 common shares in the Company.

*Credit Facility*

On December 21, 2016, the Company entered into a revolving term senior secured credit facility in the amount of US$75,000,000 (the "Credit Facility") with a syndicate of four financial institutions. The term of the Credit Facility is three years, with a reduction to US$50,000,000 after two years. The Credit Facility contains representations and warranties, conditions precedent, covenants, and events of default typical for a facility of this type. Interest rate margins are tied to a grid based on LIBOR that varies with the leverage ratio of the Company. As at December 31, 2016, the Company was in compliance with all terms and conditions of the Credit Facility.

## 14. DECOMMISSIONING, RESTORATION AND SIMILAR LIABILITIES

| *As at December 31,* | | 2016 | | 2015 |
|---|---|---|---|---|
| **Balance beginning of year** | **$** | **22,908** | $ | 32,725 |
| Unwinding of discount | | **3,413** | | 3,272 |
| Adjustments to decommissioning, restoration and similar liabilities | | **9,838** | | (953) |
| Foreign exchange impact | | **4,733** | | (11,148) |
| Expenditures | | **(2,128)** | | (988) |
| **Balance, end of year** | **$** | **38,764** | $ | 22,908 |
| | | | | |
| Current *(Note 13)* | **$** | **1,893** | $ | 1,989 |
| Non-current | | **36,871** | | 20,919 |
| | **$** | **38,764** | $ | 22,908 |

The Decommissioning, Restoration and Similar Liabilities are calculated as the net present value of estimated undiscounted and uninflated future cash flows, which total $64.2 million (December 31, 2015 - $37.0 million) using discount rates specific to the liabilities of 11.36%. The settlement of the obligations is estimated to occur through to 2032. The Company anticipates that the Decommissioning, Restoration and Similar Liabilities of the mines will be incurred in Brazilian Reais.

## 15. SHARE CAPITAL

The Company is authorized to issue an unlimited number of common shares at no par value.

| | As at December 31, 2016 | | | As at December 31, 2015 | | |
|---|---|---|---|---|---|---|
| | Number of common shares | | Amount (000's) | Number of common shares | | Amount (000's) |
| **Balance, as at January 1,** | **23,500,000** | **$** | **367,750** | 25 | $ | 1 |
| Issuance of shares | **89,027,429** | | **60,108** | 23,499,975 | | 367,749 |
| **Balance, end of period** | **112,527,429** | **$** | **427,858** | 23,500,000 | $ | 367,750 |

On September 30, 2016, the Company issued 89,027,429 common shares in exchange for settlement of a loan payable to Yamana Gold Inc. See Note 13, "Other Provisions and Liabilities" for more information.

The Company has a Restricted Share Unit ("RSU") plan that was introduced during the year ended December 31, 2015 for senior executives. Each RSU, if vested, entitles the holder to one common share of the Company. As of December 31, 2016, 5,922,496 RSUs had been granted, but had not vested. The vesting occurs on the earlier of (i) December 9, 2017, (ii) a change of control event, (iii) termination by the Company for any reason other than cause, and (iv) termination of employment by the senior executive for any reason including death or disability. The estimated fair value of the RSU on the date of grant is recognized in income over the vesting period. The stock based compensation amortized for the period ended December 31, 2016 was $7.0 million (2015 - *$4.6 million*). The unamortized values of the RSUs as at December 31, 2016 is $6.4 million (2015 - *$13.4 million*).

## 16. COST OF SALES EXCLUDING DEPLETION, DEPRECIATION AND AMORTIZATION

| *For the years ended December 31,* | | 2016 | | 2015 |
|---|---|---|---|---|
| Contractors and services | **$** | **20,293** | $ | 16,272 |
| Employee compensation and benefits expenses *(Note 17)* | | **40,756** | | 28,665 |
| Repairs and maintenance | | **18,797** | | 19,724 |
| Royalties | | **103** | | 3,309 |
| Power | | **8,989** | | 8,788 |
| Consumables | | **42,971** | | 26,251 |
| Other | | **6,965** | | 3,336 |
| Change in product inventories, ore stockpiles, material and supplies | | **5,862** | | 72 |
| **Cost of sales excluding depletion, depreciation and amortization** | **$** | **144,736** | $ | 106,417 |

## 17. EMPLOYEE COMPENSATION AND BENEFIT EXPENSES

| *For the years ended December 31,* | | 2016 | | 2015 |
|---|---|---|---|---|
| Wages and salaries | **$** | **28,749** | $ | 19,960 |
| Social security, pension, bonus and government-mandated programs | | **13,216** | | 15,016 |
| Other benefits | | **4,145** | | 155 |
| **Total Employee compensation and benefits expenses** | **$** | **46,110** | $ | 35,131 |
| Less: Expensed within general and administrative expenses | | **(3,593)** | | (5,748) |
| Less: Expensed within other operating expenses | | **(1,761)** | | (718) |
| **Employee compensation and benefit expenses included in Cost of sales *(Note 16)*** | **$** | **40,756** | $ | 28,665 |

## 18. OTHER OPERATING EXPENSES

| *For the years ended December 31,* | | 2016 | | 2015 |
|---|---|---|---|---|
| Legal provisions | **$** | **1,077** | $ | 18,999 |
| Business transaction costs for MRDM acquisition | | **3,706** | | — |
| Reorganization costs | | **2,902** | | — |
| Provisions for indirect tax credits | | **6,949** | | (6,966) |
| Care and maintenance | | **3,932** | | 3,149 |
| Other expense | | **(66)** | | 10,241 |
| **Other operating expenses** | **$** | **18,500** | $ | 25,423 |

## 19. FINANCE EXPENSE

| **For the years ended December 31,** | | 2016 | | 2015 |
|---|---|---|---|---|
| Unwinding of discounts on provisions | **$** | **3,503** | $ | 3,272 |
| Unrealized gain on foreign exchange hedges | | **(1,020)** | | — |
| Interest on loan with Yamana | | **1,519** | | — |
| Bank, financing fees and other | | **1,278** | | — |
| **Finance expense** | **$** | **5,280** | $ | 3,272 |

## 20. FINANCIAL INSTRUMENTS

### (a) Fair Value of Financial Instruments

The Company's financial instruments include cash, trade and other receivables, trade and other payables, currency derivatives, and loan payable to Yamana. The carrying values of cash, trade and other receivables and trade and other payables approximate their fair values due to the relatively short-term nature of these instruments.

There were no material differences between the carrying value and fair value of non-current assets and liabilities.

The Company assesses its financial instruments and non-financial contracts on a regular basis to determine the existence of any embedded derivatives which would be required to be accounted for separately at fair value and to ensure that any embedded derivatives are accounted for in accordance with the Company's policy. As at December 31, 2016 and December 31, 2015, there were no embedded derivatives requiring separate accounting.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, inputs other than quoted prices that are observable for the asset or liability (for example, interest rate and yield curves observable at commonly quoted intervals, forward pricing curves used to value currency and commodity contracts and volatility measurements used to value option contracts), or inputs that are derived principally from or corroborated by observable market data or other means. Level 3 inputs are unobservable (supported by little or no market activity). The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The fair value of derivative instruments is determined using Level 2 inputs, either present value techniques or option pricing models that utilize a variety of inputs that are a combination of quoted prices and market-corroborated inputs. The Company continues to monitor the potential impact of the recent instability of the financial markets, and will adjust its derivative contracts for credit risk based upon the credit default swap spread for each of the counterparties as warranted. The fair value of the derivative related asset as at December 31, 2016 is $1.3 million (2015 - $nil).

### (b) Currency Risk

The Company's sales are denominated in United States dollars. The Company is primarily exposed to currency fluctuations relative to the United States dollar as a portion of the Company's operating costs and capital expenditures are denominated in foreign currencies; the Brazilian Real. Monetary assets denominated in foreign currencies are also exposed to foreign currency fluctuations. These potential currency fluctuations could have a significant impact on production costs and thereby the profitability of the Company.

On November 3rd and 4th, 2016, the Company entered into (a) zero-cost collar foreign exchange contracts of $28.0 million Reais ("R$") per month for two years (January 2017 through December 2018), totaling R$672 million, with average call and put strike prices of US$1 = R$3.30 and US$1 = $3.8971 respectively, and (b) forward contracts of R$28 million per month for two years (January 2017 through December 2018) totaling R$672 million, at a fixed exchange rate averaging 1US$ =R$3.553.
This is to manage the foreign exchange exposure of the operating and capital expenditures associated with its Brazilian operations.

The following table summarizes the fair value of derivative related assets:

| As at December 31, | 2016 | 2015 |
|---|---|---|
| **Currency contracts** | | |
| Forward contracts | **309** | — |
| Zero-cost collar contracts | **$ 1,019** | $ — |
| Total derivative related assets | **1,328** | — |
| Less: Current portion | **$ (1,328)** | $ — |
| Non-current portion | — | — |

The total value of the derivative related assets relates to unrealized derivative gains of $1.3 million (2015 - $nil) as no settlements have been made for these contracts for the year ended 2016.

The Company tests the hedge effectiveness quarterly. Effective unrealized changes in fair value are recorded in OCI. Ineffective changes in fair value and changes in time value of options are recorded in earnings. At settlement, the realized changes are accounted for at trade date and recorded as follows:

Amount related to hedging of operating expenditures is included in cost of sales to offset the foreign exchange effect recorded by the mines. Amount related to hedging of capital expenditures is included in capitalized purchases of goods or services to offset the foreign exchange recorded by the mines or development projects.

The following table outlines the Company's exposure to currency risk and the pre-tax effects on profit or loss and equity at the end of the reporting period of a 10% change in the foreign currency for the foreign currency denominated monetary items. The sensitivity analysis includes cash and cash equivalents and trade payables. A positive number below indicates an increase in profit or equity where the US dollar strengthens 10% against the relevant foreign currency. For a 10% weakening of the US dollar against the relevant foreign currency, there would be a comparable negative impact on the profit or equity.

| **As at December 31,** | **2016** | | **2015** | |
|---|---|---|---|---|
| **(On 10% change in United States Dollars exchange rate)** | **Effect on net earnings, before tax** | **Effect on other comprehensive income, before tax** | **Effect on net earnings, before tax** | **Effect on other comprehensive income, before tax** |
| Brazilian Reais | **$ 4,765** | **$ —** | $ 2,675 | $ — |

### (c) Commodity Price Risk

Gold and silver prices are affected by various forces including global supply and demand, interest rates, exchange rates, inflation or deflation and the political and economic conditions of major gold and silver-producing countries. The profitability of the Company is directly related to the market price of gold and silver. A decline in the market prices for these precious metals could negatively impact the Company's future operations. The Company has not hedged any of its gold or silver sales.

The change in the average commodity prices will not have an impact on Other Comprehensive Income.

### (d) Credit Risk

Credit risk is the risk that a third party might fail to discharge its obligations under the terms of a financial instrument. The Company limits credit risk by entering into business arrangements with high credit-quality counterparties, limiting the amount of exposure to each counterparty and monitoring the financial condition of counterparties whilst also establishing policies to ensure liquidity of available funds. In addition, credit risk is further mitigated in specific cases by maintaining the ability to novate contracts from lower quality credit counterparties to those with higher credit ratings.

For cash and trade and other receivables, credit risk is represented by the carrying amount on the balance sheet. Cash is deposited in highly rated corporations and the credit risk associated with these deposits is low. The Company does not have any assets pledged as collateral.

The Company's maximum credit exposure to credit risk is as follows:

| **As at December 31,** | | **2016** | | **2015** |
|---|---|---|---|---|
| Cash | **$** | **7,014** | $ | 3,966 |
| Trade and other receivables | | **154** | | 6,921 |
| Derivative related assets | | **1,328** | | — |
| | **$** | **8,496** | $ | 10,887 |

### (e) Liquidity Risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Under the terms of our trading agreements, counterparties cannot require the Company to immediately settle outstanding financial instruments except upon the occurrence of customary events of default. The Company mitigates liquidity risk by managing its capital expenditures and operating cash flows. Contractual maturities relating to contractual commitments are included in *Note 25.*

| **As at December 31,** | **2016** | | | | |
|---|---|---|---|---|---|
| | **Within 1 year** | **2 - 3 years** | **4 - 5 years** | **Over 5 years** | **Total** |
| Trade and other payables | **56.1** | — | — | — | **56.1** |
| Decommissioning, restoration and similar liabilities (undiscounted) | **2.1** | **5.8** | **8.2** | **48.1** | **64.2** |
| | **58.2** | **5.8** | **8.2** | **48.1** | **120.3** |

## 21. INCOME TAXES

### (a) Income Tax Expense

| *For the years ended December 31,* | | **2016** | | **2015** |
|---|---|---|---|---|
| **Current tax expense (recovery)** | | | | |
| Current tax expense in respect of the current year | **$** | **9,754** | $ | 2,415 |
| Impact of foreign exchange | | **393** | | 250 |
| | **$** | **10,147** | $ | 2,665 |
| **Deferred tax expense (recovery)** | | | | |
| Deferred tax recovery recognized in the current year | **$** | **(1,691)** | $ | (48,898) |
| Impact of foreign exchange | | **(31,735)** | | 82,620 |
| | **$** | **(33,426)** | $ | 33,722 |
| **Total income tax (recovery) expense** | **$** | **(23,279)** | $ | 36,387 |

The following table reconciles income taxes calculated at statutory rates with the income tax expense in the Consolidated Statements of Operations:

| *For the years ended December 31,* | | 2016 | | 2015 |
|---|---|---|---|---|
| Loss before income taxes | **$** | **(40,138)** | $ | (34,898) |
| Canadian statutory tax rate | | **26.5%** | | 26.5% |
| | | | | |
| Expected income tax recovery | **$** | **(10,813)** | $ | (9,248) |
| Impact of higher foreign tax rates *(i)* | | **(5,941)** | | (7,854) |
| Permanent differences | | **(1,646)** | | (47,614) |
| Unrecognized deferred tax assets | | **(13,683)** | | 48,602 |
| Tax effect of translation in foreign operations | | **42,057** | | (27,559) |
| Unrealized foreign exchange on non-monetary assets | | **(31,346)** | | 82,868 |
| Withholding Taxes | | **1,233** | | 181 |
| Other | | **(3,140)** | | (2,989) |
| **Income tax (recovery) expense** | **$** | **(23,279)** | $ | 36,387 |
| | | | | |
| **Income tax expense is represented by:** | | | | |
| Current income tax expense | **$** | **10,147** | $ | 2,665 |
| Deferred income tax (recovery) expense | **$** | **(33,426)** | $ | 33,722 |
| **Total income tax (recovery) expense** | **$** | **(23,279)** | $ | 36,387 |

*(i)* The Company operates in multiple foreign tax jurisdictions that have tax rates that differ from the statutory rate.

### (b) Deferred Income Taxes

The following is the analysis of the deferred tax assets (liabilities) presented in the Consolidated Balance Sheets:

| ***For the years ended December 31,*** | | 2016 | | 2015 |
|---|---|---|---|---|
| The net deferred income tax assets (liabilities) are classified as follows: | | | | |
| Deferred income tax assets | **$** | **6,167** | $ | — |
| Deferred income tax liabilities | | **(11,413)** | | (39,004) |
| | **$** | **(5,246)** | $ | (39,004) |

| **As at December 31, 2016** | | **Opening balance** | | **Recognized in profit or loss** | | **Other** | | **Closing balance** |
|---|---|---|---|---|---|---|---|---|
| Deductible temporary differences | **$** | **5,231** | | **42,142** | | **—** | | **47,373** |
| Decommissioning, restoration and similar liabilities | | **5,673** | | **(6,059)** | | **—** | | **(386)** |
| Property, plant and equipment and Mineral Properties | | **(3,712)** | | **(43,262)** | | **—** | | **(46,974)** |
| Unrealized foreign exchange losses | | **(35,043)** | | **29,110** | | **—** | | **(5,933)** |
| Inventory | | **(392)** | | **392** | | **—** | | **—** |
| Other | | **(10,761)** | | **11,101** | | **334** | | **674** |
| **Net deferred income tax liabilities** | **$** | **(39,004)** | **$** | **33,424** | **$** | **334** | **$** | **(5,246)** |

| As at December 31, 2015 | | Opening balance | Recognized in profit or loss | Other | Closing balance |
|---|---|---|---|---|---|
| Deductible temporary differences | $ | 1,969 | 3,262 | | 5,231 |
| Amounts related to tax losses | | 2,175 | (2,175) | | — |
| Decommissioning, restoration and similar liabilities | | 2,471 | 3,202 | | 5,673 |
| Property, plant and equipment | | 27,777 | (33,553) | 2,064 | (3,712) |
| Unrealized foreign exchange losses | | (35,714) | 671 | | (35,043) |
| Inventory | | — | (392) | | (392) |
| Other | | (3,722) | (4,737) | (2,302) | (10,761) |
| **Net deferred income tax liabilities** | $ | (5,044)$ | (33,722)$ | (238)$ | (39,004) |

**(c) Unrecognized Deductible Temporary Differences and Unused Tax Losses**

Deferred tax assets have not been recognized in respect of the following items:

| *(In thousands of United States Dollars)* | | For the year ended December 31, | | For the period from date of incorporation to December 31, |
|---|---|---|---|---|
| | | **2016** | | **2015** |
| Deductible temporary differences (no expiry) | **$** | **83,339** | $ | 138,456 |
| Tax losses | | **37,205** | | 8,294 |
| | **$** | **120,544** | $ | 146,750 |

Loss carry forwards at December 31, 2016 will expire as follows:

| *(In thousands of United States Dollars)* | Brazil | Canada | USA | Netherlands | Other | Total |
|---|---|---|---|---|---|---|
| 2022 and onwards | — | — | 1,108 | 40 | 2 | 1,150 |
| Unlimited | 36,055 | — | — | — | — | 36,055 |
| | **$ 36,055** | **$ —** | **$ 1,108** | **$ 40** | **$ 2** | **$ 37,205** |

**(d) Unrecognized Taxable Temporary Differences Associated with Investments and Interests in Subsidiaries**

As at December 31, 2016, an aggregate temporary difference of $300.6 million (2015 - $nil) related to investments in subsidiaries was not recognized because the Company controls the reversal of the liabilities and it is expected that it will not reverse in the foreseeable future.

## 22. NET LOSS PER SHARE

| For the years ended December 31, | | 2016 | | 2015 |
|---|---|---|---|---|
| Weighted average number of common shares - basic | | **45,878,479** | | 15,773,980 |
| Weighted average number of dilutive potential shares *(i)* | | — | | — |
| Weighted average number of common shares - diluted | | **45,878,479** | | 15,773,980 |
| Net loss | **$** | **(16,859)** | $ | (69,418) |
| Net loss per share - basic and diluted | **$** | **(0.37)** | $ | (4.40) |

*(i)* Effect of dilutive securities - the potential shares attributable to restrictive share units were 5,922,496 which were anti-dilutive in the year ended December 31, 2016 and 2015.

## 23. SUPPLEMENTARY CASH FLOW INFORMATION

### (a) Net Change in Non-Cash Operating Working Capital

| *For the years ended December 31,* | | 2016 | | 2015 |
|---|---|---|---|---|
| **Net decrease (increase) in:** | | | | |
| Trade and other receivables | **$** | **4,754** | $ | — |
| Inventories | | **(1,863)** | | 3,881 |
| Other assets | | **(16,739)** | | 1,160 |
| **Net (decrease) increase in:** | | | | |
| Trade payable and other payables | | **21,999** | | (26,714) |
| Other current liabilities | | **(8,535)** | | (1,010) |
| Net change in non-cash working capital *(i)* | **$** | **(384)** | $ | (22,683) |

*(i)* The option payment made of $6.0 million with respect to MRDM in the twelve months ended December 31, 2015 was included in change in working capital and has been reclassified to acquisition of RDM under investing activities.

### (b) Other Non-Cash Operating Expenses

| For the years ended December 31, | | 2016 | | 2015 |
|---|---|---|---|---|
| Provisions for indirect tax credits | **$** | **6,949** | $ | (6,966) |
| Write-off and (gain)/loss on sale of assets | | **4,673** | | 9,372 |
| Legal provisions | | **1,077** | | 18,999 |
| Stock based compensation | | **6,968** | | 4,645 |
| Others | | **—** | | 369 |
| **Other non-cash operating expenses** | **$** | **19,667** | $ | 26,419 |

### (c) Non-Cash Investing and Financing Transactions

For the year ended December 31, 2016 the Company issued 89,027,429 common shares with a value of $60.1 million for the repayment of the total outstanding loan with Yamana.

## 24. OPERATING SEGMENTS

The Company which produces primarily gold, and to a lesser extent silver, bases its operating segments on the way information is reported and used by the senior management team. The Company has four core reportable operating segments located in Brazil that are shown below. Property, plant and equipment referred to below consist of land, buildings, equipment and mining properties subject to depletion and mining properties not subject to depletion which include assets under construction and exploration and evaluation costs.

| As at December 31, 2016 | | Mineração Fazenda Brasileiro | | Santa Luz | | Pilar | | Mineração Riacho dos Machados *(i)* | | Corporate and Others | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Property, plant and equipment | $ | 73,496 | $ | 129,788 | $ | 212,753 | $ | 65,660 | $ | 49 | **$** | **481,746** |
| Non-current assets | $ | 79,573 | $ | 129,967 | $ | 215,459 | $ | 65,729 | $ | 79 | **$** | **490,807** |
| Total assets | $ | 91,626 | $ | 138,182 | $ | 231,500 | $ | 78,584 | $ | 1,807 | **$** | **541,699** |
| Total liabilities | $ | (40,115) | $ | (23,562) | $ | (21,954) | $ | (24,194) | $ | (9,082) | **$** | **(118,907)** |

| As at December 31, 2015 | | Mineração Fazenda Brasileiro | Santa Luz | Pilar | Mineração Riacho dos Machados (i) | Corporate and Others | Total |
|---|---|---|---|---|---|---|---|
| Property, plant and equipment | $ | 59,274 $ | 33,219 $ | 335,636 $ | — $ | — **$** | **428,129** |
| Non-current assets | $ | 59,721 $ | 33,219 $ | 339,095 $ | — $ | 6,280 **$** | **438,315** |
| Total assets | $ | 76,994 $ | 42,920 $ | 353,240 $ | — $ | 7,028 **$** | **480,182** |
| Total liabilities | $ | (25,402)$ | (19,971)$ | (59,116)$ | — $ | (3,426)**$** | **(107,915)** |

*(i)* Mineração Riacho dos Machados was acquired April 29, 2016 and therefore comparative segment financial information has not been included.

### Segment Operating Earnings

| As at December 31, 2016 | | Mineração Fazenda Brasileiro | Santa Luz | Pilar | Mineração Riacho dos Machados (i) | Corporate and Others | Total |
|---|---|---|---|---|---|---|---|
| Total segment revenue | $ | 87,901 $ | — $ | 103,989 $ | 40,466 $ | — **$** | **232,356** |
| Cost of sales | | (51,052) | — | (59,337) | (34,347) | — | **(144,736)** |
| Depletion, depreciation and amortization | | (18,702) | — | (43,573) | (4,543) | — | **(66,818)** |
| Impairment of operating mineral properties | | — | — | (110,876) | — | — | **(110,876)** |
| **Mine operating earnings/(loss)** | $ | 18,147 $ | — $ | (109,797)$ | 1,576 $ | — **$** | **(90,074)** |
| Other expenses *(ii)* | | | | | | | **49,936** |
| **Loss before income taxes** | | | | | | **$** | **(40,138)** |
| Capital expenditures | $ | 20,593 $ | 2,743 $ | 26,398 $ | 17,874 $ | 374 **$** | **67,982** |

| As at December 31, 2015 | | Mineração Fazenda Brasileiro | Santa Luz | Pilar | Mineração Riacho dos Machados (i) | Corporate and Others | Total |
|---|---|---|---|---|---|---|---|
| Total segment revenue | $ | 69,156 $ | — $ | 92,411 $ | — $ | — $ | 161,567 |
| Cost of sales | | (46,427) | — | (59,990) | — | — | (106,417) |
| Depletion, depreciation and amortization | | (29,853) | — | (20,489) | — | — | (50,342) |
| Impairment of operating mineral properties | | (12,717) | — | — | — | — | (12,717) |
| **Mine operating earnings/(loss)** | $ | (19,841)$ | — $ | 11,932 $ | — $ | — $ | (7,909) |
| Other expenses *(ii)* | | | | | | | (25,122) |
| **Loss before income taxes** | | | | | | $ | (33,031) |
| Capital expenditures | $ | 14,684 $ | 1,088 $ | 16,661 $ | — $ | — $ | 32,433 |

*(i)* Mineração Riacho dos Machados was acquired April 29, 2016 and therefore comparative segment financial information has not been included.

*(ii)* Other expenses is comprised of general and administrative expense of $13.3 million (2015 - *$15.8 million)*, foreign exchange loss of $9.2 million (2015 - Gain of *$26.7 million)*, finance expense of $5.3 million (2015 - *$3.3 million)*, other operating expense of $18.5 million (2015 - *$25.4 million)* and an impairment reversal of non-operating mineral properties of $96.2 million (2015 -impairment of *$7.3 million*).

## 25. CONTRACTUAL COMMITMENTS

### Construction and Service Contracts

| *As at December 31,* | 2016 | 2015 |
|---|---|---|
| Within 1 year | **$ 61,759** | $ 46,313 |
| Between 1 to 3 years | **43,388** | 19,887 |
| Between 3 to 5 years | **29,174** | 581 |
| After 5 years | **10,409** | 37 |
| | **$ 144,730** | $ 66,818 |

### Operating Leases

The aggregate amounts of minimum lease payments under non-cancellable operating leases are as follows:

| *As at December 31,* | 2016 | 2015 |
|---|---|---|
| Within 1 year | **$ 305** | **$** — |
| Between 1 to 3 years | **740** | — |
| Between 3 to 5 years | **717** | — |
| After 5 years | **—** | — |
| | **$ 1,762** | **$** — |

## 26. CONTINGENCIES

Due to the size, complexity and nature of the Company's operations, various legal and tax matters arise in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, these matters will not have a material effect on the Consolidated Financial Statements of the Company.

## 27. RELATED PARTIES

### Sales Arrangements with Yamana Gold Inc.

| *For the years ended December 31,* | 2016 | 2015 |
|---|---|---|
| Revenues from sales to Yamana Gold Inc. | **$ 218,248** | $ 161,567 |
| Revenues from sales to 3rd Party | **14,108** | — |
| **Revenues from mining operations** | **$ 232,356** | $ 161,567 |

The Company sells its production to Yamana based on a price per ounce determined by applying a 2.85% discount on the London Bullion Market Association (LBMA) gold price at the transaction date. The discount is recorded as an offset to revenue. Under the agreement, Yamana is subjected to a penalty calculated at a 3 months LIBOR + 2% of the total payment amount if the funds are not paid within 30 days of the date of bill of sale. The agreement was terminated on January 1, 2017 with all sales now to external parties.

### Transition Services Agreement

On December 23, 2016, the Company entered into a transition services agreements with Yamana and its affiliates, whereby the Company will receive services for certain legal, human resources, financial, tax and information technology services that Yamana

and its affiliates currently provide to the Company. The Company will receive these services for 4 months with the option of extending for an additional 2 months.

**Other Related Party Transactions**

Related party payables/receivables and related party expenses/income relate to the purchase and sale of precious metal through related parties agreements and transfers under finance arrangements, are unsecured and are due on demand.

**Compensation of Key Management Personnel**

The Company considers key management personnel to be those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly. Remuneration paid to key management during the period to December 31, 2016 includes cash payment of $1.5 million (2015 - $1.4 million) and a stock based compensation expense of $7.0 million (2015 - $4.6 million).

## 28. SUBSEQUENT EVENTS

**New Sales Agreement**

On January 6, 2017 the Company entered into an agreement with a third party relating to the sales, marketing and refining of gold. This agreement allows the Company to conduct the sales process independently of Yamana, with the previous sales arrangement with Yamana being terminated on January 9, 2017.

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