DALRADIAN
RESOURCES

Dalradian Resources Inc.

# Consolidated Financial Statements

(Expressed in Canadian Dollars)

For the years ended
December 31, 2017 and December 31, 2016

March 15, 2018

## Management's Responsibility for Consolidated Financial Statements

Date March 15, 2018

To the Shareholders of Dalradian Resources Inc.

The accompanying consolidated financial statements of Dalradian Resources Inc. ("the Company") were prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee, whose members are independent directors of the Company, assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management and the external auditors quarterly. The Audit Committee reviews management's evaluation of internal controls over the financial reporting process, the consolidated financial statements and the auditors' report. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders. The Audit Committee also has the responsibility of overseeing the external auditors.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

Dalradian Resources Inc.

*(signed) Patrick F. N. Anderson*

Patrick F. N. Anderson
Chief Executive Officer

*(signed) Keith McKay*

Keith McKay
Chief Financial Officer

# Dalradian Resources Inc.

## Independent Auditors' Report

To the Shareholders of Dalradian Resources Inc.

We have audited the accompanying consolidated financial statements of Dalradian Resources Inc., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of loss and comprehensive loss, shareholders' equity and cash flows for the years then ended, and notes, comprising 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.

*Auditors' 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 our 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, we consider 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 consolidated financial position of Dalradian Resources Inc. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

*(signed) KPMG*

Chartered Professional Accountants, Licensed Public Accountants
March 15, 2018
Toronto, Canada

## Dalradian Resources Inc.

## Consolidated Statement of Financial Position
(Expressed in Canadian dollars)

| | As at Dec. 31, 2017 | As at Dec. 31, 2016 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 137,963,176 | $ 35,719,242 |
| Amounts receivable | 651,345 | 666,166 |
| Prepaid expenses and other assets | 685,335 | 506,785 |
| | 139,299,856 | 36,892,193 |
| Non-Current assets: | | |
| Restoration deposit (note 6) | 1,057,930 | 1,032,135 |
| Property, plant and equipment (note 4) | 166,346,572 | 118,988,157 |
| Exploration and evaluation assets (note 5) | 4,600,521 | 3,943,077 |
| | 172,005,023 | 123,963,369 |
| | $ 311,304,879 | $ 160,855,562 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | $ 7,139,710 | $ 4,908,196 |
| Provision for reclamation (note 6) | 356,181 | 347,844 |
| | 7,495,891 | 5,256,040 |
| Non-Current liabilities: | | |
| Provision for reclamation (note 6) | 695,401 | 679,124 |
| Shareholders' equity: | | |
| Share capital (note 7) | 359,737,165 | 195,974,511 |
| Warrants (note 7) | 47,760 | 10,745,550 |
| Contributed surplus | 15,146,358 | 12,314,675 |
| Accumulated deficit | (71,817,696) | (64,114,338) |
| | 303,113,587 | 154,920,398 |
| | $ 311,304,879 | $ 160,855,562 |

Commitments and contingencies (note 13) and subsequent event (note 15)

On behalf of the Board:

*(signed) James E. Rutherford*

James E. Rutherford
Director

*(signed) Ronald P. Gagel*

Ronald P. Gagel
Director

See accompanying notes, which are integral part of these consolidated financial statements.

## Consolidated Statement of Loss and Comprehensive Loss
(Expressed in Canadian dollars)

| | Year ended Dec. 31, 2017 | Year ended Dec. 31, 2016 |
|---|---|---|
| Operating expenses: | | |
| Salaries and related benefits | $ 3,266,088 | $ 3,119,915 |
| Professional fees and consulting | 908,758 | 1,145,288 |
| Share-based payments | 2,038,951 | 1,094,623 |
| Investor relations and travel | 930,017 | 1,061,043 |
| Office, regulatory and general | 1,044,007 | 762,423 |
| Interest and bank charges | 14,350 | 11,454 |
| Depreciation | 4,606 | 4,606 |
| Foreign exchange (gain) loss | (17,462) | 809,272 |
| | $ 8,189,315 | $ 8,008,624 |
| Interest income | 485,957 | 188,174 |
| Loss and comprehensive loss for the year | $ (7,703,358) | $ (7,820,450) |
| Loss per share – basic and diluted (note 9) | $ (0.03) | $ (0.03) |

See accompanying notes, which are integral part of these consolidated financial statements.

## Dalradian Resources Inc.

## Consolidated Statement of Shareholders' Equity

(Expressed in Canadian dollars)

| | | Year ended Dec. 31, 2017 | | Year ended Dec. 31, 2016 |
|---|---|---|---|---|
| **Share capital:** | | | | |
| Balance, beginning of year | $ | 195,974,511 | $ | 162,680,450 |
| Common shares issued (note 7) | | 103,382,473 | | 220,932 |
| Warrants exercised (note 7) | | 58,971,908 | | 30,869,137 |
| Share-based payments exercised (note 7) | | 1,408,273 | | 2,203,992 |
| Balance, end of year | $ | 359,737,165 | $ | 195,974,511 |
| **Warrants:** | | | | |
| Balance, beginning of year | $ | 10,745,550 | $ | 15,019,060 |
| Warrants exercised (note 7) | | (9,133,252) | | (4,229,727) |
| Warrants expired (note 7) | | (1,564,538) | | (43,783) |
| Balance, end of year | $ | 47,760 | $ | 10,745,550 |
| **Contributed surplus:** | | | | |
| Balance, beginning of year | $ | 12,314,675 | $ | 12,533,961 |
| Increase from share-based payments (note 7) | | 2,342,419 | | 1,183,623 |
| Warrants expired (note 7) | | 1,564,538 | | 43,783 |
| Share-based payments exercised | | (1,075,274) | | (1,446,692) |
| Balance, end of year | $ | 15,146,358 | $ | 12,314,675 |
| **Accumulated deficit:** | | | | |
| Balance, beginning of year | $ | (64,114,338) | $ | (56,293,888) |
| Loss and comprehensive loss for the year | | (7,703,358) | | (7,820,450) |
| Balance, end of year | $ | (71,817,696) | $ | (64,114,338) |
| Total shareholders' equity | $ | 303,113,587 | $ | 154,920,398 |

See accompanying notes, which are integral part of these consolidated financial statements.

## Dalradian Resources Inc.

## Consolidated Statement of Cash Flows
(Expressed in Canadian dollars)

| | | Year ended Dec. 31, 2017 | | Year ended Dec. 31, 2016 |
|---|---|---|---|---|
| Cash flows from (used in) operating activities: | | | | |
| Loss and comprehensive loss for the year | $ | (7,703,358) | $ | (7,820,450) |
| Items not affecting cash: | | | | |
| Unrealized foreign exchange loss on cash | | 108,517 | | 1,164,808 |
| Interest income | | (485,957) | | (188,174) |
| Depreciation | | 4,606 | | 4,606 |
| Share-based payments | | 2,038,951 | | 1,094,623 |
| Unrealized foreign exchange (gain) loss on restoration deposit | | (25,795) | | 236,795 |
| Change in non-cash operating working capital: | | | | |
| Amounts receivable | | 135,826 | | 188,603 |
| Prepaid expenses and other assets | | (172,297) | | (14,663) |
| Accounts payable and accrued liabilities | | (727,825) | | 1,529,526 |
| Cash flows used in operating activities | $ | (6,827,332) | $ | (3,804,326) |
| Cash flows from financing activities: | | | | |
| Net proceeds from common shares issued | $ | 77,824,069 | $ | - |
| Exercise of warrants | | 49,838,656 | | 26,639,410 |
| Exercise of share options | | 332,999 | | 757,300 |
| Cash flows from financing activities | $ | 127,995,724 | $ | 27,396,710 |
| Cash flows from (used) in investing activities: | | | | |
| Expenditures on exploration and evaluation assets | $ | (521,794) | $ | (24,810,417) |
| Additions to property, plant and equipment | | (17,726,240) | | (5,410,717) |
| Minco acquisition transaction costs (note 4) | | (933,934) | | - |
| Interest received | | 366,027 | | 189,901 |
| Cash flows used in investing activities | $ | (18,815,941) | $ | (30,031,233) |
| Net change in cash and cash equivalents | | $102,352,451 | | (6,438,849) |
| Cash and cash equivalents, beginning of year | | 35,719,242 | | 43,322,899 |
| Effect of exchange rate fluctuations on cash held | | (108,517) | | (1,164,808) |
| Cash and cash equivalents, end of year | $ | 137,963,176 | $ | 35,719,242 |

See accompanying notes, which are integral part of these consolidated financial statements.

## 1. NATURE OF OPERATIONS

Dalradian Resources Inc. (collectively with its subsidiaries, the "Company") was incorporated on March 27, 2009, in the Province of Ontario, Canada, and is involved in the acquisition, exploration, evaluation and development of mineral properties in Northern Ireland. The registered address of the Company's head office is Queen's Quay Terminal, 207 Queens Quay West, Suite 416, Toronto, Ontario, M5J 1A7.

The Company's primary focus is the development of its wholly-owned Curraghinalt Project and exploration and evaluation of its mineral properties in Northern Ireland. The Curraghinalt Project transitioned from the exploration and evaluation stage to the development stage for accounting purposes in December 2016.

The recoverability of the amounts paid for the acquisition of, and investment in, mineral properties is dependent upon the commercial development of recoverable reserves, the preservation of the Company's interest in the underlying mineral prospecting licences and mining lease option agreements, the ability to obtain necessary financing and the attainment of profitable operations or, alternatively, the disposal of properties or the Company's interests therein on an advantageous basis.

While the Company has no source of revenue, management believes it has sufficient cash resources to meet its obligations and fund planned expenditures and administrative costs for at least the next twelve months. The Company will have to raise funds in the future to finance the development of the Curraghinalt Project and meet future expenditures and administrative costs. Although the Company has been successful in raising funds to date, as evidenced by proceeds raised from warrants exercised in 2016 and 2017 (see note 7) and the private placement which closed on November 27, 2017 (see note 7), there can be no assurance that adequate financing will be available in the future or available under terms acceptable to the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for the foreseeable future. Outlined below is a summary of the significant accounting policies used in the preparation of these consolidated financial statements.

These consolidated financial statements have been approved and authorized to be issued by the Board of Directors on March 15, 2018.

(b) Basis of presentation

These consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments as described below.

(c) Basis of consolidation

These consolidated financial statements include the assets, liabilities, revenues and expenses of the Company and its 100% owned subsidiaries, Dalradian Gold Limited ("DGL") and Minco Limited, formerly Minco plc. All inter-company transactions and balances have been eliminated on consolidation. No other subsidiaries of the Company are considered significant.

A subsidiary is an entity over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. A subsidiary is fully consolidated from the date on which control is transferred to the Company, and is deconsolidated from the date that control ceases.

(d) Measurement uncertainty

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the related reported expenses during the year. The most significant estimates and judgments are related to:

(i) Transition of the Curraghinalt Project from the exploration and evaluation stage to the development stage in 2016 as described in note 2(f), 2(g) and 4;

(ii) Recoverability of property, plant and equipment, and exploration and evaluation assets as described in note 2(g) and 2(h);

(iii) Fair value of share-based payments and warrants as described in note 2(k);

(iv) Measurement and recognition of deferred income tax assets and liabilities as described in note 2(l);

(v) Measurement of the provision for reclamation as described in note 2(i);

(vi) Estimate of mineral reserves and resources

The Company estimates its mineral reserves and resources based on information compiled by qualified persons as defined in accordance with the requirements of National Instrument 43-101 (“NI 43-101”), Standards of Disclosure for Mineral Projects. The estimation of mineral reserves and resources requires judgment to interpret available geological data then select an appropriate mining method and establish an extraction schedule. It also requires assumptions about future commodity prices, exchange rates and projections of costs and recovery rates. There are numerous uncertainties inherent in estimating mineral reserves and resources and assumptions that are valid at the time of estimation and may change significantly when new information become available. New geological data as well as changes in the above assumptions may change the economic status of reserves and may, ultimately, result in the reserves being revised.

Changes in the proven and probable mineral reserves or measured and indicated and inferred mineral resources estimates may impact the carrying value of mineral property under development, exploration and evaluation assets, and property, plant and equipment;

(vii) Recognition of provision for contingencies as described in note 2(j).

Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

(e) Property, plant and equipment

Property, plant and equipment is recorded at cost less accumulated depreciation. Cost includes import duties and non-refundable purchase taxes after deducting trade discounts and rebates; costs directly attributed to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; and the present value of the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located. Depreciation is recognized when the assets are available for use. Currently, the Company is using the straight-line depreciation method, over a period of three to five years or over the lease term. Depreciation methods and periods are reviewed annually and are adjusted if necessary.

(f) Mineral property under development

Mineral property acquisition and development expenditures are comprised of the purchase price, including import duties and non-refundable purchase taxes after deducting trade discounts and rebates; costs directly attributed to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management; the present value of the initial estimate of the future costs of dismantling and removing the item and restoring the site on which it is located; costs of testing whether the asset is functioning properly; and depreciation of related equipment. Mineral property under development are assessed to determine the point at which the assets are ready for their intended use and production has commenced. Once the mineral property has reached the production stage, capitalization of certain mineral property under development costs ceases, the asset is reclassified to the related asset class within property, plant and equipment and depreciation of the asset commences.

Judgment is required in determining when an exploration and evaluation asset is technically feasible and commercially viable and transitions from the exploration and evaluation stage to the development stage. Factors taken into consideration by the Company in this assessment include:

- Existence of mineral resources and reserves;
- Completion of a NI 43-101 feasibility study or other appropriate study;
- Operating and environmental permits exist or are reasonably expected to be obtained; and
- Board of Director approval.

(g) Exploration and evaluation assets

The Company capitalizes costs incurred to acquire, explore for and evaluate mineral resources. These expenditures are included in the exploration and evaluation assets classification within the Company's statement of financial position. Once the technical feasibility and commercial viability of a mineral resource is determined, a required impairment test is performed and the carrying value is reclassified as mineral property under development, a component of property, plant and equipment. The exploration and evaluation costs include the fair market value of consideration paid, including cash and shares, if any, for the acquisition of property interests.

(h) Impairment of non-financial assets

The Company assesses its mineral property under development and property, plant and equipment for indication of impairment at each reporting date and whenever facts and circumstances suggest that the carrying amount is not recoverable. This evaluation requires significant judgment regarding whether significant changes in internal and external factors indicate the carrying value may be impaired, including a significant decline in an asset's market value, decline in mineral reserves or resources or lower than expected gold price or input costs.

For impairment testing of property, plant and equipment and mineral property under development, assets are grouped at 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, this grouping is referred to as a cash-generating unit ("CGU"). The Curraghinalt Project forms the Company's only CGU as the other projects are still in the exploration and evaluation stage. Corporate assets, which include head office facilities that do not generate cash inflows, are allocated to the Curraghinalt Project as they support the Project.

The Company assesses its exploration and evaluation assets for impairment when, based on the conditions listed in IFRS 6, *Exploration and Evaluation of Mineral Resources,* facts and circumstances indicate the carrying value of its exploration and evaluation assets exceeds its recoverable amount, such as the loss of the rights to explore an area, poor exploration results or abandonment of work programs. This evaluation requires significant judgment regarding the status of the exploration program to determine whether any of the impairment indicators in IFRS 6 have been met.

If an impairment test of non-financial assets is required, the recoverable amount is determined based on the higher of fair value less cost of disposal ("FVLCD") and value in use, which is the present value of the future cash flows expected to be derived from an asset.

If the recoverable amount of mineral property under development, exploration and evaluation asset or property, plant and equipment is estimated to be less than its carrying amount, the carrying amount is reduced to the recoverable amount. Impairment is recognized immediately in the consolidated statement of loss and comprehensive loss. If the circumstances leading to the impairment change, and an impairment subsequently reverses, the carrying amount is increased to the revised estimate of the recoverable amount but only to the extent that this does not exceed the carrying value that would have been determined if no impairment had previously been recognized. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of loss and comprehensive loss.

Determining the recoverable amount requires management to make significant estimates regarding the future cash flows expected to be received from the mining project. Significant estimates include mineral reserves and resources to be mined, future commodity prices, capital and operating costs, discount rate and future foreign exchange rates.

(i) Provision for reclamation

A provision for reclamation is recognized when: (i) the Company has a present legal or constructive obligation as a result of past exploration and evaluation, development or mining activities; (ii) it is probable that an outflow of resources will be required to settle the obligation; and (iii) the amount can be reliably estimated.

The Company records a liability and corresponding asset for the present value of the estimated costs of legal and constructive obligations for future site reclamation.

The present value is determined based on an assessment of the discount rate of the country in which the reclamation site is located based on the risk-free rate of borrowing approximated by the yield on sovereign debt for that country, with a maturity approximating the reclamation period.

The estimated present value of the reclamation cost is reassessed on an ongoing basis for completed exploration and evaluation, development and mining activities and for new material information as it becomes available. When estimates of reclamation costs are revised, the present value of the changes in reclamation costs is recorded in the period by a change in the reclamation provision and a corresponding adjustment to the related assets.

The ultimate cost of reclamation is uncertain and cost estimates can vary in response to many factors including changes to the relevant legal requirements and the emergence of new restoration techniques. The expected timing of expenditure can also change. As a result there could be significant adjustments to the provisions for reclamation, which would affect future financial results.

Funds on deposit with third parties provided as security for future reclamation costs are included in restoration deposits on the statement of financial position.

(j) Recognition of provision for contingencies

Contingencies can be either possible assets or possible liabilities arising from past events which, by their nature, will only be resolved when one or more future events not wholly within the control of the Company occur or fail to occur. The assessment of such contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events. In assessing loss contingencies relating to legal proceedings against the Company or unasserted claims that may result in such proceedings, the Company in consultation with its legal counsel evaluates the perceived merits of any legal proceedings or unasserted claims as well as the perceived merits of the nature and amount of relief sought or expected to be sought when determining the amount, if any, to recognize as a provision or assessing the impact on the carrying value of assets.

(k) Share-based payments and warrants

The fair value of any share-based payment granted to directors, officers, employees and consultants is recorded over the vesting period of the award as an expense or a component of exploration and evaluation assets or property, plant and equipment based on the nature of the services for which it was awarded with a corresponding increase recorded to contributed surplus. Share-based payments for directors, officers and employees are valued at the grant date whereas consultants' share-based payments are valued as the goods and services are received from the recipient. If the fair value of the goods and services received cannot be estimated reliably the Black-Scholes pricing model is used. Fair value of share options for directors, officers and employees, and warrants is determined using the Black-Scholes option pricing model utilizing management's assumptions as described in note 7. Fair value of share-based payments for consultants is determined based on the fair value of the goods and services received and requires management to make estimates of the value of the goods and services received. Upon exercise of a share option or warrant, consideration paid by the share option or warrant holder, together with the amount previously recognized in contributed surplus and warrants, respectively, is recorded as an increase to share capital.

Restricted Share Units ("RSU") and Performance Share Units ("PSUs") are accounted for as equity settled share-based payments, and the grant date fair value is amortized over their vesting period. The fair value of the RSU and PSU is based on the share price at the grant date as described in note 7.

Deferred Share Units ("DSU") are granted to non-executive directors and must be held by the director until the director leaves the Company's Board of Directors. DSUs vest immediately on grant. DSU's are accounted for as equity settled share-based payments, and the grant date fair value is recognized in the statement of loss and comprehensive loss on the grant date. The fair value of the DSU is based on the share price at the grant date as described in note 7.

(l) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Deferred income tax assets and liabilities are determined based on the differences between the financial reporting and tax bases of assets and liabilities and on losses carried forward. For non-monetary assets denominated in a foreign currency, the tax basis is translated to the functional currency using the current foreign exchange rate. Deferred income tax assets and liabilities are measured using the substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse or losses are expected to be utilized. The effect on deferred income tax assets and liabilities of a change in the enacted tax rate is included in income in the period in which the change is substantively enacted. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is probable that they will be realized. This evaluation requires management to make judgments as to whether it is probable that a tax asset may be realized in the future.

(m) Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding. The dilutive effect of share-based payments and warrants is calculated using the treasury stock method. The treasury stock method assumes that any proceeds from the exercise of dilutive share-based payments and warrants would be used to repurchase common shares at the average market price during the year, with the incremental number of shares being included in the denominator of the diluted earnings per share calculation to the extent that it is dilutive. Share-based payments and share purchase warrants are not included in the computation of diluted loss per share in periods where the Company incurs a loss as their inclusion would be anti-dilutive.

(n) Functional and presentation currency

The Company and its subsidiary have a functional currency of Canadian dollars, which is also the currency in which the consolidated financial statements are presented. Transactions and balances denominated in a foreign currency have been translated into Canadian dollars using a method that retains their basis of measurement in terms of the Canadian dollar, as described below. Any conversion differences are recorded as exchange gains or losses in the consolidated statement of loss and comprehensive loss. Under this method:

(i) monetary items are translated at the exchange rate in effect at the statement of financial position date;

(ii) non-monetary items, principally the property plant and equipment assets, are translated at historical exchange rates; and

(iii) expenses are translated at the average rates of exchange during the year, other than share-based payments and depreciation which are translated at historical rates.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short-term deposits with an original maturity of less than three months.

(p) Financial instruments

Financial instruments are recognized when the Company becomes party to the contractual provisions of the financial instruments. All financial instruments are initially recognized at fair value on the consolidated statement of financial position. The Company has classified each financial instrument into one of the following categories: fair value through profit or loss; loans and receivables; and other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities classified as fair value through profit or loss are measured at fair value with changes in those fair values recognized in the consolidated statement of loss and comprehensive loss for the year.

Loans and receivables and other financial liabilities are measured at amortized cost using the effective interest method.

The Company's financial assets and liabilities are recorded and measured as follows:

| Asset or Liability | Category | Subsequent Measurement |
|---|---|---|
| Cash and cash equivalents, Restoration deposit | Fair value through profit or loss | Fair value |
| Amounts receivable | Loans and receivables | Amortized cost |
| Accounts payables and accrued liabilities | Other liabilities | Amortized cost |

Financial assets are derecognized when the contractual rights expire or these rights are transferred to another party. Financial liabilities are derecognized when obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial instrument and the consideration received and receivable or paid and payable is recognized in the consolidated statement of loss and comprehensive loss.

The Company assesses at each reporting date whether there are indications that a financial asset is impaired. If there is objective evidence that a financial asset is impaired, the impairment is recognized in the consolidated statement of loss and comprehensive loss as the difference between the carrying amount of the financial asset and the estimated future cash flows discounted at the financial asset's original effective interest rate. If the impairment loss decreases after the impairment being recognized and this decrease relates to an event occurring after the impairment was initially recognized, the previously recognized impairment loss is reversed in the consolidated statement of loss and comprehensive loss. The reversal is recognized only to the extent that the carrying amount does not exceed what the amortized cost would have been had the impairment not been recognized.

## 3. RECENT ACCOUNTING PRONOUNCEMENTS AND ADOPTION OF NEW AND AMENDED IFRS STANDARDS

The following new IFRS standards are issued but not yet effective for the Company.

**IFRS 9 *Financial Instruments***

On July 24, 2014, the IASB issued the completed IFRS 9, *Financial Instruments,* (IFRS 9 (2014)).

IFRS 9 (2014) includes finalized guidance on the classification and measurement of financial assets. Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows.

(Expressed in Canadian dollars)

The final standard also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment and new general hedge accounting requirements. IFRS 9 is to come into effect on January 1, 2018 with early adoption permitted.

The Company intends to adopt IFRS 9 (2014) in its financial statements for the annual period beginning on January 1, 2018. The Company has performed an analysis of IFRS 9 and due to the nature of its financial instruments, the Company does not expect the standard to have a material impact on the financial statements and no impact to the opening accumulated deficit balance will be required on January 1, 2018.

**IFRS 16 *Leases***

On January 13, 2016, the IASB issued IFRS 16, *Leases*.

The standard introduces a single lessee accounting model and requires, unless the underlying asset is of low value, a lessee to recognize assets and liabilities for all leases with a term of more than 12 months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. IFRS 16 is to come into effect on January 1, 2019 with early adoption permitted.

The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The extent of the impact of adoption of the standard has not yet been determined.

## 4. PROPERTY, PLANT AND EQUIPMENT

| | Mineral property under development | Land | Plant and equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| Balance at Dec. 31, 2016 | $ 103,696,207 | $ 13,471,877 | $ 4,788,683 | $ 121,956,767 |
| Additions: | | | | |
| Acquisition of assets | - | 664 | 116,476 | 117,140 |
| Minco royalty acquisition | 26,492,338 | - | - | 26,492,338 |
| Mineralized material processing, net | (1,006,021) | - | - | (1,006,021) |
| Underground development | 2,905,443 | - | - | 2,905,443 |
| Infill drilling | 8,823,768 | - | - | 8,823,768 |
| Technical studies | 1,756,262 | - | - | 1,756,262 |
| Permitting | 4,633,103 | - | - | 4,633,103 |
| Geology | 933,023 | - | - | 933,023 |
| Administrative and other | 2,404,497 | - | - | 2,404,497 |
| Share-based payments | 303,468 | - | - | 303,468 |
| Capitalized depreciation | 729,281 | - | - | 729,281 |
| Disposals | - | - | (60,937) | (60,937) |
| Balance at Dec. 31, 2017 | $ 151,671,369 | $ 13,472,541 | $ 4,844,222 | $ 169,988,132 |

(Expressed in Canadian dollars)

| | Mineral property under development | Land | Plant and equipment | Total |
|---|---|---|---|---|
| **Accumulated Depreciation** | | | | |
| Balance at Dec. 31, 2016 | $ - | $ - | $ 2,968,610 | $ 2,968,610 |
| Depreciation | - | - | 733,887 | 733,887 |
| Disposals | - | - | (60,937) | (60,937) |
| Balance at Dec. 31, 2017 | $ - | $ - | $ 3,641,560 | $ 3,641,560 |
| **Cost** | | | | |
| Balance at Dec. 31, 2015 | $ - | $ 9,568,037 | $ 4,810,847 | $ 14,378,884 |
| Transferred from Exploration and Evaluation Assets (Note 5) | 102,007,509 | - | - | 102,007,509 |
| Additions: | | | | |
| Acquisition of assets | - | 3,903,840 | 46,300 | 3,950,140 |
| Underground development | 490,526 | - | - | 490,526 |
| Infill drilling | 12,187 | - | - | 12,187 |
| Technical studies | 428,284 | - | - | 428,284 |
| Permitting | 416,913 | - | - | 416,913 |
| Geology | 35,204 | - | - | 35,204 |
| Administrative and other | 239,900 | - | - | 239,900 |
| Share-based payments | 7,189 | - | - | 7,189 |
| Capitalized depreciation | 58,495 | - | - | 58,495 |
| Disposals | - | - | (68,464) | (68,464) |
| Balance at Dec. 31, 2016 | $ 103,696,207 | $ 13,471,877 | $ 4,788,683 | $ 121,956,767 |
| **Accumulated Depreciation** | | | | |
| Balance at Dec. 31, 2015 | $ - | $ - | $ 2,281,956 | $ 2,281,956 |
| Depreciation | - | - | 755,118 | 755,118 |
| Disposals | - | - | (68,464) | (68,464) |
| Balance at Dec. 31, 2016 | $ - | $ - | $ 2,968,610 | $ 2,968,610 |
| **Net Book Value** | | | | |
| Balance at Dec. 31, 2017 | $ 151,671,369 | $ 13,472,541 | $ 1,202,662 | $ 166,346,572 |
| Balance at Dec. 31, 2016 | $ 103,696,207 | $ 13,471,877 | $ 1,820,073 | $ 118,988,157 |

The Company, through its wholly-owned subsidiary, DGL, holds a 100% interest in option agreements and prospecting licences, subject to royalties as described below, consisting of six contiguous areas (DG1, DG2, DG3, DG4, DG5 and DG6) held under licence or under application, located in counties Tyrone and Londonderry, Northern Ireland, United Kingdom. This area is collectively known as the “Northern Ireland Properties”.

On December 12, 2016, the Company announced the results of the independent Feasibility Study (“FS”) for its 100% owned Curraghinalt Gold Project in Northern Ireland. The Company determined the development of a mine on the mineral property related to the DG1 licence was technically feasible and commercially viable and consequently the property transitioned from the exploration and evaluation stage to the development stage for accounting purposes. The DG2 to DG6 areas remain in the exploration and evaluation stage and the related assets are classified as exploration and evaluation assets (note 5).

There are two elements comprising the Company's interest for each of the six licence areas:

- the option agreements for mining leases entered into with the Crown Estate Commissioners ("CEC") for gold and silver (the "CEC Mining Lease Option Agreements"); and
- the prospecting licences entered into with the Department for the Economy ("DfE", formerly known as Department of Enterprise, Trade and Investment) for base metals (the "DfE Prospecting Licences").

On March 11, 2016, DGL finalized renewals of the DG1-DG4 CEC Mining Lease Option Agreements, using a new standard form of CEC agreement, each with a commencement date of January 1, 2016 and an initial expiry date of December 31, 2021. On March 11, 2016, DGL also entered into initial CEC Mining Lease Option Agreements for DG5 and DG6 with a commencement date of January 1, 2016 and expiry date of December 31, 2021. The CEC Mining Lease Option Agreements have a six-year term with an option to extend the term for up to an additional four years (together, the "Option Period").

The DfE Prospecting Licences for DG1 and DG2 were issued in 2013 and are currently in their second two-year extension term which runs from January 1, 2018 to December 31, 2019. The DfE Prospecting Licences for DG3 and DG4 completed their second two-year extension term on April 23, 2017 and the Company's applications for new Prospecting Licences on those areas are being processed by DfE. Although the Company has received renewals of these licences in the past, there is no guarantee that the Company will receive them in the future. On June 23, 2016, DGL was granted DfE Prospecting Licences for DG5 and DG6 with a commencement date of June 1, 2016 and expiry date of May 31, 2022. A DfE Prospecting Licence cannot be extended beyond six years (equivalent to three two-year licences) from the date of grant; however, at the end of the second two-year extension, DGL may apply for a new DfE Prospecting Licence over the same area. Applications for new DfE Prospecting Licences will be required for DG1 and DG2 in late 2019 and for DG5 and DG6 in mid-2021.

Pursuant to a royalty agreement, dated December 13, 2004 (the "Royalty Agreement"), between DGL and Minco plc ("Minco"), a 2% net smelter return royalty on a portion of the Northern Ireland Properties, including the Curraghinalt gold deposit ("the Royalty"), is payable by DGL to Minco or its nominee. During 2017, the Company acquired Minco and its Royalty (the "Royalty Transaction") as a share for share acquisition of Minco by Dalradian pursuant to a scheme of arrangement, under Chapter 1 of Part 9 of the Companies Act 2014 of Ireland, including a demerger of Minco's subsidiary, Buchans Resources Limited ("Buchans"), which held all of Minco's assets other than the Royalty so that on the completion of the Royalty Transaction the only asset held by Minco was the Royalty. The Royalty Transaction closed on August 30, 2017, resulting in the issuance of a total of 15,489,942 common shares of the Company to Minco shareholders and shareholders' of Buchans. The Royalty Transaction was recorded at the closing date share price of $1.65 per share for a total purchase price of $26,492,338 including $933,934 transaction costs related to legal fees and other professional fees. The Royalty Transaction was accounted for as an asset acquisition as Minco does not meet the definition of a business under IFRS 3 Business Combinations. As a result, the purchase price was allocated to the Royalty acquisition and recognized in property, plant and equipment.

(Expressed in Canadian dollars)

As provided in the CEC Mining Lease Option Agreements, a 4% royalty will be payable to the CEC upon production of gold and/or silver from the Northern Ireland Properties.

During 2017, a recovery of net $1.0 million was credited to property, plant and equipment related to the $4.4 million cost of processing the mineralized material from underground development offset by proceeds of $5.4 million from the sale of processed ore.

## 5. EXPLORATION AND EVALUATION ASSETS

| | Year ended Dec. 31, 2017 | Year ended Dec. 31, 2016 |
|---|---|---|
| Balance, beginning of year | $ 3,943,077 | $ 82,356,346 |
| Exploration | 657,444 | 1,125,149 |
| Asset evaluation | - | 22,387,280 |
| Share-based payments | - | 81,811 |
| Transferred to property, plant and equipment (note 4) | - | (102,007,509) |
| Balance, end of year | $ 4,600,521 | $ 3,943,077 |

The Curraghinalt Project transitioned from the exploration and evaluation stage to the development stage for accounting purposes in December 2016. Exploration and evaluation expenditures related to the DG1 licence area were transferred to mineral property under development in property, plant and equipment and the remaining balance represents exploration expenditures related to the DG2 to DG6 licence areas. The terms of the CEC Mining Lease Option Agreements, DfE Prospecting Licences and royalty agreement for DG2 to DG6 are described in note 4.

## 6. PROVISION FOR RECLAMATION

When the surface works phase of the underground exploration program started in 2014, the Company was required to place a restoration deposit which has a balance of £623,743 as at December 31, 2017 (December 31, 2016 – £623,120), equivalent to $1,057,930 (December 31, 2016 – $1,032,135), in a reserve account as security for reclamation to be performed in accordance with CEC requirements. The funds will remain in the reserve account and accrue interest until reclamation associated with the Underground Program has been satisfactorily completed.

The Company estimates the provision for reclamation based on the estimated cost of reclamation activities required to fulfil the Company’s obligation to remediate the current disturbance area of mineral properties. As of December 31, 2017, provision for reclamation is estimated to be £620,000 (December 31, 2016 – £620,000), equivalent to $1,051,582 (December 31, 2016 – $1,026,968). As at December 31, 2017, management estimates that the current portion of the provision for reclamation is £210,000 (December 31, 2016 – £210,000), equivalent to $356,181 (December 31, 2016 – $347,844).

(Expressed in Canadian dollars)

## 7. SHARE CAPITAL, WARRANTS, SHARE OPTIONS, RESTRICTED SHARE UNITS AND DEFERRED SHARE UNITS

(a) Share Capital:

The Company is authorized to issue an unlimited number of common shares. As at December 31, 2017, 355,484,053 (December 31, 2016 – 243,324,776) common shares were issued and outstanding.

| | Number of shares issued | | Amount |
|---|---|---|---|
| Balance, December 31, 2015 | 215,163,700 | $ | 162,680,450 |
| Issuance on land acquisition (i, ii) | 225,000 | | 220,932 |
| Issuance on exercise of warrants | 24,106,904 | | 28,743,315 |
| Issuance on exercise of broker warrants | 1,742,478 | | 2,125,822 |
| Issuance on exercise of share options | 1,236,694 | | 1,260,492 |
| Issuance on exercise of RSUs | 850,000 | | 943,500 |
| Balance, December 31, 2016 | 243,324,776 | $ | 195,974,511 |
| Issuance on the Royalty Transaction (note 4) | 15,489,942 | | 25,558,404 |
| Issuance on exercise of share options | 750,736 | | 1,408,273 |
| Issuance on exercise of warrants | 42,687,307 | | 58,971,908 |
| Issuance through Private Placement (iii) | 53,231,292 | | 77,824,069 |
| Balance, December 31, 2017 | 355,484,053 | $ | 359,737,165 |

Further details of transactions in shareholders' equity referenced above are:

(i) On January 8, 2016, the Company issued 150,000 common shares, at a price of $0.81 per share, to a landowner as part of a deal to acquire their land for the purpose of development and exploration and evaluation activities.

(ii) On December 12, 2016, the Company issued 75,000 common shares, at a price of $1.33 per share, to a landowner as part of a deal to acquire their land for the purpose of development and exploration and evaluation activities.

(iii) On November 27, 2017, the Company closed a non-brokered private placement with each of Orion Mine Finance Fund II LP ("Orion") and Osisko Gold Royalties Ltd ("Osisko"). Pursuant to the private placement, Orion acquired 34,013,605 common shares of the Company and Osisko acquired 19,217,687 common shares, each at a price of $1.47 per common share, for gross proceeds of $78.25 million (the "Private Placement"). Transaction costs of $933,934 were incurred during 2017 related to legal fees and other professional fees.

(Expressed in Canadian dollars)

(b) Warrants:

| | Number of warrants | | Amount | | Weighted average exercise price |
|---|---|---|---|---|---|
| Balance, December 31, 2015 | 73,655,477 | $ | 15,019,060 | $ | 1.14 |
| Warrants expired | (30,000) | | (43,783) | | 2.17 |
| Warrants exercised | (24,106,904) | | (3,672,135) | | 1.04 |
| Broker warrants exercised | (1,742,478) | | (557,592) | | 0.90 |
| Balance, December 31, 2016 | 47,776,095 | $ | 10,745,550 | $ | 1.20 |
| Warrants expired | (5,038,788) | | (1,564,538) | | 1.49 |
| Warrants exercised | (42,687,307) | | (9,133,252) | | 1.17 |
| Balance, December 31, 2017 | 50,000 | $ | 47,760 | $ | 1.50 |

No warrants were issued during the years ended December 31, 2017 and December 31, 2016.

As at December 31, 2017, the following warrants were issued and outstanding:

| Number of warrants | Shares issuable | Carrying value | Exercise price | Expiry date |
|---|---|---|---|---|
| 50,000 | 50,000 | 47,760 | 1.50 | January 1, 2018 |

Each warrant entitles the holder to purchase one common share at the stated exercise price up to the expiry date. See note 15 for warrants expired subsequent to December 31, 2017.

(c) Share Options:

The shareholders initially approved on April 27, 2010 and most recently on June 27, 2016, a share option plan under which the Company is authorized to grant share options to officers, directors, employees and consultants of the Company. Under the share option plan, the Company may not have more than 10% of the outstanding issued common shares reserved for incentive share options at any time. Share options granted under the share option plan will have a term not to exceed five years from the later of (i) the grant date; or (ii) August 10, 2010, the date on which the common shares were listed for trading on the Toronto Stock Exchange, have an exercise price of not less than the closing price of the shares on the Toronto Stock Exchange on which the common shares are listed on the trading date immediately preceding the date the share options are granted and may be subject to vesting terms as determined by the Board of Directors.

In accordance with the share option plan, the vesting period is determined by the Board of Directors. Unless disclosed otherwise, the vesting period is generally one third of the total share options granted vest immediately upon grant date and the remaining thirds each vest on the first and second anniversaries of the date they were granted.

(Expressed in Canadian dollars)

| | Number of options | | Weighted average exercise price |
|---|---|---|---|
| Balance, December 31, 2015 | 11,035,000 | $ | 0.84 |
| Granted | 1,700,000 | | 1.19 |
| Exercised[1] | (1,490,001) | | 0.66 |
| Forfeited | (124,999) | | 0.68 |
| Expired | (2,120,000) | | 0.90 |
| Balance, December 31, 2016 | 9,000,000 | $ | 0.92 |
| Granted | 2,285,000 | | 1.64 |
| Exercised[1] | (1,718,334) | | 1.05 |
| Forfeited | (24,999) | | 1.32 |
| Balance, December 31, 2017 | 9,541,667 | $ | 1.07 |
| Vested share options, December 31, 2017 | 7,468,345 | $ | 0.95 |

1. *The weighted average share price on the date of exercise of exercised share options during 2017 was $1.52 (2016 – $1.17).*

As at December 31, 2017 share options granted and still outstanding were as follows:

| Grant Date | Exercise price | Number of vested options | Number of non-vested options | Number of outstanding options | Remaining life in years | Expiry date |
|---|---|---|---|---|---|---|
| Jul. 9, 2013 | 0.71 | 250,000 | - | 250,000 | 0.52 | Jul. 9, 2018 |
| Feb. 14, 2014 | 0.85 | 300,000 | - | 300,000 | 1.12 | Feb. 14, 2019 |
| Jun. 25, 2014 | 0.98 | 1,300,000 | - | 1,300,000 | 1.48 | Jun. 25, 2019 |
| Sept. 25, 2014 | 0.71 | 140,000 | - | 140,000 | 1.73 | Sept. 25, 2019 |
| Mar. 2, 2015 | 0.78 | 750,000 | - | 750,000 | 2.17 | Mar. 2, 2020 |
| Apr. 1, 2015 | 0.87 | 33,333 | - | 33,333 | 2.25 | Apr. 1, 2020 |
| Apr. 8, 2015 | 0.92 | 100,000 | - | 100,000 | 2.27 | Apr. 8, 2020 |
| Aug. 20, 2015 | 0.90 | 500,000 | - | 500,000 | 2.64 | Aug. 20, 2020 |
| Aug. 21, 2015 | 0.91 | 100,000 | - | 100,000 | 2.64 | Aug. 21, 2020 |
| Dec. 18, 2015 | 0.67 | 2,100,000 | - | 2,100,000 | 2.97 | Dec. 18, 2020 |
| May 13, 2016 | 1.14 | 116,667 | 58,333 | 175,000 | 3.37 | May 13, 2021 |
| Dec. 14, 2016 | 1.30 | 83,334 | 41,666 | 125,000 | 3.96 | Dec. 14, 2021 |
| Dec. 16, 2016 | 1.19 | 933,338 | 466,662 | 1,400,000 | 3.96 | Dec. 16, 2021 |
| Feb. 1, 2017 | 1.33 | 33,334 | 66,666 | 100,000 | 4.09 | Feb. 1, 2022 |
| Jun. 30, 2017 | 1.65 | 728,339 | 1,439,995 | 2,168,334 | 4.50 | Jun. 30, 2022 |
| | | 7,468,345 | 2,073,322 | 9,541,667 | 3.06[1] | |

1. *The weighted average remaining life for the share options outstanding at December 31, 2017 was 3.06 years (2016 – 3.08 years).*

The fair value of the share options granted to officers, employees, directors and consultants during the year ended December 31, 2017 was $1,487,720 (December 31, 2016 – $840,763) and was estimated using the Black-Scholes option pricing method using the following range of assumptions:

(Expressed in Canadian dollars)

| | 2017 | 2016 |
|---|---|---|
| Volatility | 58% to 60% | 61% to 64% |
| Risk-free interest rate | 0.9% to 1.2% | 0.6% to 0.9% |
| Expected life (years) | 3 | 3 |
| Dividend yield | Nil | Nil |
| Forfeiture rate | 5% | 5% |

The Company estimates future volatility by reference to the Company's historical volatility over a period equal to the expected life of the share option.

(d) Restricted Share Units ("RSUs"):

On June 25, 2012, the shareholders initially approved an RSU plan which was amended on May 13, 2016. Under the RSU plan, the participants are granted rights to receive fully paid and non-assessable common shares from the Company, the RSUs vest at the end of the third year from their grant date and upon vesting of the RSU, the Company has the option to settle with (i) one common share of the Company or (ii) cash payment equal to the five-day volume weighted average trading price of a common share prior to the vesting date. The RSUs are classified as equity-settled as the Company has no past practice and no intention of settling in cash. RSUs can only be settled for cash at the discretion of the Board.

| | Number of RSUs | Weighted average fair value per unit at grant date [1] |
|---|---|---|
| Balance, December 31, 2015 | 1,070,000 | $ 1.04 |
| Granted | 1,155,000 | 1.19 |
| Redeemed | (850,000) | 1.11 |
| Balance, December 31, 2016 | 1,375,000 | $ 1.12 |
| Granted | 510,000 | 1.65 |
| Forfeited | (145,000) | 0.69 |
| Balance, December 31, 2017 | 1,740,000 | $ 1.31 |

1. *The fair value of the RSUs are based on the share price on the date of grant.*

On June 30, 2017, 510,000 RSUs were granted to officers and employees of the Company in accordance with the Company's RSU plan, with 85,000 of the RSUs being subject to a performance condition, also called PSUs. The number of PSUs which vest will be adjusted by a multiple of 0% to 150% depending on the Company's Total Shareholder Return (defined as the cumulative share price appreciation) relative to a group of peer companies over a three year period.

The fair value of RSUs granted during 2017 was $841,500 (2016 – $1,374,450).

(e) Deferred Share Units ("DSUs"):

On June 27, 2016, the shareholders approved a DSU plan. Upon redemption of the DSU, at the time of the Director's retirement from all positions with the Company, the Company has the option to settle with (i) one common share of the Company or (ii) cash payment equal to the market value of a common share on the redemption date. The fair value at grant date is recorded immediately in the consolidated statement of loss and comprehensive loss with a corresponding adjustment to contributed surplus since the payment in cash or common shares is at the discretion of the Company and the Company has no past practice and no intention of settling in cash. DSUs can only be settled for cash at the discretion of the Board.

(Expressed in Canadian dollars)

| | Number of DSUs | Weighted average fair value per unit at grant date [1] |
|---|---|---|
| Balance, December 31, 2015 | - | - |
| Granted | 294,000 | 1.19 |
| Balance, December 31, 2016 | 294,000 | $ 1.19 |
| Granted | 210,000 | 1.65 |
| Balance, December 31, 2017 | 504,000 | $ 1.38 |

1. *The fair value of the DSUs are based on the share price on the date of grant.*

The fair value of DSUs granted during 2017 was $346,500 (2016 – $349,860).

(f) The following table sets forth the total expense and capitalized share-based payment amounts recognized for the year ended December 31, 2017 and December 31, 2016:

| | Year ended Dec. 31, 2017 | Year ended Dec. 31, 2016 |
|---|---|---|
| Share options | $ 1,348,506 | $ 757,323 |
| RSUs | 647,413 | 76,440 |
| DSUs | 346,500 | 349,860 |
| | $ 2,342,419 | $ 1,183,623 |

The share-based payment amounts recognized as expense for the year ended December 31, 2017 was $2,038,951 (2016 – $1,094,623) and the amounts capitalized for the year ended December 31, 2017 was $303,468 (2016 – $89,000).

The total fair value of unvested shared-based payments that will be recognized in the consolidated statement of loss and comprehensive loss or capitalized into mineral property under development in future periods is $2,288,787 as at December 31, 2017 (December 31, 2016 – $1,981,016).

## 8. RELATED PARTY TRANSACTIONS

Key management personnel comprise members of the Board of Directors and certain members of the Company's executive team. Compensation of key management personnel comprised:

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| Short-term employee benefits and other payments | $ 2,008,464 | $ 1,731,773 |
| Directors' fees | 577,500 | 481,500 |
| Share-based payments | 1,774,988 | 1,013,822 |
| | $ 4,360,952 | $ 3,227,095 |

(Expressed in Canadian dollars)

## 9. BASIC AND DILUTED LOSS PER SHARE

The following table sets forth the computation of basic and diluted loss per share:

| | Year ended December 31, 2017 | Year ended December 31, 2016 |
|---|---|---|
| Numerator: | | |
| Loss for the period | $ (7,703,358) | $ (7,820,450) |
| Denominator: | | |
| Weighted average number of common shares | 271,553,234 | 224,608,267 |
| Basic and diluted loss per share | $ (0.03) | $ (0.03) |

The outstanding share options, RSUs, DSUs and warrants were not included in the computation of diluted loss per share as their inclusion would be anti-dilutive.

## 10. DEFERRED INCOME TAX RECOVERY

The major components of the deferred income tax expense/recovery for the years ended December 31, 2017 and December 31, 2016 are as follows:

| | Year ended Dec. 31, 2017 | Year ended Dec. 31, 2016 |
|---|---|---|
| **Reconciliation of effective tax rate:** | | |
| Net loss before taxes | $ (7,703,358) | $ (7,820,450) |
| Income tax recovery at statutory rates 26.5 % | (2,041,390) | (2,072,419) |
| Non-deductible expenses | 960,193 | 294,039 |
| Change in recognized temporary differences | 1,104,262 | 1,769,255 |
| Rate adjustments | (6,655) | - |
| Effect of tax rates in foreign jurisdiction | (16,410) | 9,125 |
| | $ - | $ - |
| **Unrecognized deferred tax assets:** | | |
| Deferred tax assets have not been recognized in respect of: | | |
| Investment in subsidiaries | $ 3,047,387 | $ 3,266,193 |
| Deductible temporary differences | 4,528,154 | 4,531,981 |
| Tax losses | 59,429,779 | 54,233,264 |
| | $ 67,005,320 | $ 62,031,438 |

Property, plant and equipment and exploration and evaluation expenditures incurred up to December 31, 2017 at the Northern Ireland Properties (across the six Mineral Prospecting Licences held by DGL) have been capitalized for accounting and tax purposes and will be claimed in due course.

For Canadian income tax purposes, the non-capital tax losses begin to expire in 2029. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits.

## 11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

(a) Fair Value

Cash and cash equivalents and restoration deposit are measured at fair value using level 1 inputs per the fair value hierarchy.

The carrying values of amounts receivable and accounts payable and accrued liabilities reflected in the consolidated statement of financial position approximate fair value because of the short-term maturity of these financial instruments.

(b) Commodity Price Risk

The Company's ability to develop its properties and its future profitability are related to the market price of gold. The price of gold is affected by numerous factors, such as global consumption and demand for gold, international economic and political trends, fluctuations in the value of the U.S. dollar and other currencies, interest rates and inflation.

(c) Liquidity Risk

Liquidity risk includes the risk that, as a result of the Company's operational liquidity requirements:

(i) the Company will not have sufficient funds to settle a transaction on the due date;
(ii) the Company will be forced to sell financial assets at a value that is less than what they are worth; or,
(iii) the Company may be unable to settle liabilities or recover a financial asset at all.

The ultimate responsibility for liquidity risk rests with the Board of Directors of the Company, which has built an appropriate liquidity risk management framework for management of the Company's short, medium and long-term funding and liquidity requirements. The Company's cash requirements and balances are projected based on estimated future requirements. The Company plans to meet these requirements through a mix of available funds, equity financing, sale of assets, and project debt financing. Continuing operations are dependent on the Company's ability to access sufficient capital to complete the Company's exploration, evaluation and development activities, and to ultimately have profitable operations. Accounts payable and accrued liabilities at December 31, 2017 all have contractual maturities of less than 90 days and are subject to normal trade terms. The Company had sufficient funds on hand at December 31, 2017 to settle these liabilities.

(d) Credit Risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the consolidated statement of financial position date. The Company's financial assets are cash and cash equivalents, restoration deposit and amounts receivable. Management considers the credit risk on cash and cash equivalents and restoration deposit to be limited because the counterparties are established well-known financial institutions. During the year ended December 31, 2017, no amounts receivable were past due. Consequently, no allowances or bad debts were required on the amounts receivable. The maximum exposure to credit risk is represented by the carrying amount of the cash and cash equivalents, restoration deposit and amounts receivable on the consolidated statement of financial position.

(e) Foreign Currency Risk

Foreign currency risk is the risk that a variation in the exchange rates between the Canadian dollar and foreign currencies could affect the Company's operating and financial results. The Company is exposed to foreign currency risk as the Company holds cash in foreign currencies and has other financial assets and liabilities that are denominated in foreign currencies. The Company's management monitors the exchange rate fluctuations on a regular basis and does not use currency derivative instruments to manage its exposure to foreign currency fluctuations.

(Expressed in Canadian dollars)

At December 31, 2017, the carrying amounts of the Company's foreign currency-denominated net financial assets are approximately as follows:

| | Net financial assets (liabilities) | Effect of 10% change in exchange rate on loss |
|---|---|---|
| U.S. dollar | $ (1,060,571) | $ 106,057 |
| Pound sterling | 3,015,214 | 301,521 |
| Euro | (160,238) | 16,024 |
| Australian dollar | (105,196) | 10,520 |

## 12. CAPITAL DISCLOSURES

The Company's policy with respect to managing its capital is as follows:

(a) to safeguard the Company's ability to continue as a going concern so that it can provide returns for shareholders and benefits for other stakeholders; and

(b) to raise sufficient funds to finance ongoing exploration and evaluation and development activities to provide an adequate return to shareholders.

The Company defines capital as total equity plus debt. Total equity is comprised of share capital, accumulated deficit, contributed surplus and warrants. Currently the Company has no debt or borrowings, other than short-term accounts payable and accrued liabilities with terms of less than 90 days to maturity. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares, raise debt or sell assets to raise capital.

| | Year ended Dec. 31, 2017 | Year ended Dec. 31, 2016 |
|---|---|---|
| Shareholders' equity | $ 303,113,587 | $ 154,920,398 |
| Long-term debt | - | - |
| | $ 303,113,587 | $ 154,920,398 |

## 13. COMMITMENTS AND CONTINGENCIES

At December 31, 2017, the Company had the following commitments for operating leases for the next five fiscal years:

| | Total | 2018 | 2019 | 2020 | 2021 | 2022 |
|---|---|---|---|---|---|---|
| Operating leases | $ 494,745 | $ 320,216 | $ 174,529 | $ - | $ - | $ - |

Operating leases represent lease agreements for office spaces in Toronto and Northern Ireland expiring on September 30, 2018 and September 30, 2019, respectively.

The Company may be subject to various contingent liabilities that occur in the normal course of operations.

The Company is disputing invoices from an organization with claims totalling £399,841 (equivalent to $678,170) related to underground development. Management is of the view that the claims are without merit and they will be contested to the full extent of the law. Accordingly, these claims have not been accrued and are considered to be a contingent liability.

(Expressed in Canadian dollars)

## 14. SEGMENTED REPORTING

The Company's registered office is in Canada. The geographical segmentation of the Company's assets and expenses are as follows:

| | Northern Ireland | Canada | Total |
|---|---|---|---|
| **As at December 31, 2017** | | | |
| Current assets | 2,232,242 | 137,067,614 | 139,299,856 |
| Restoration deposit | 1,057,930 | - | 1,057,930 |
| Property, plant and equipment | 166,342,662 | 3,910 | 166,346,572 |
| Exploration and evaluation assets | 4,600,521 | - | 4,600,521 |
| Total assets | 174,233,355 | 137,071,524 | 311,304,879 |
| **Year ended December 31, 2017** | | | |
| Additions to property, plant and equipment | 48,031,365 | - | 48,031,365 |
| Additions to exploration and evaluation assets | 657,444 | - | 657,444 |
| Revenue | - | - | - |
| Net loss (income) | (218,806) | 7,922,164 | 7,703,358 |
| **As at December 31, 2016** | | | |
| Current assets | $ 1,220,615 | $ 35,671,578 | $ 36,892,193 |
| Restoration deposit | 1,032,135 | - | 1,032,135 |
| Property, plant and equipment | 118,979,641 | 8,516 | 118,988,157 |
| Exploration and evaluation assets | 3,943,077 | - | 3,943,077 |
| Total assets | $ 125,175,468 | $ 35,680,094 | $ 160,855,562 |
| **Year ended December 31, 2016** | | | |
| Additions to property, plant and equipment | $ 5,570,374 | $ - | $ 5,570,374 |
| Additions to exploration and evaluation assets | $ 23,594,240 | $ - | $ 23,594,240 |
| Revenue | $ - | $ - | $ - |
| Net loss | $ 140,381 | $ 7,680,069 | $ 7,820,450 |

## 15. SUBSEQUENT EVENT

### Landowner Warrants

On January 1, 2018, 50,000 warrants exercisable at $1.50 per warrant, with a carrying value of $47,760, expired.