



## **Interim Condensed Consolidated Financial Statements**

**For the Three Months Ended December 31, 2018 and 2017  
(UNAUDITED)  
Presented in Canadian dollars**

### **Management's Responsibility for Financial Reporting**

The accompanying interim condensed consolidated financial statements for Almonty Industries Inc. were prepared by management in accordance with International Financial Reporting Standards (IFRS). Management acknowledges responsibility for the preparation and presentation of the interim condensed 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. The significant accounting policies of the Company are summarized in Note 3 to the interim condensed consolidated financial statements.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the interim condensed consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the interim condensed consolidated financial statements and (ii) the interim condensed consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash

flows of the Company, as of the date of and for the periods then ended presented by the interim condensed consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the interim condensed consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. The Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the interim condensed consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the interim condensed consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

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.

**The unaudited Interim Condensed Consolidated Financial Statements as at and for the three-month periods ended December 31, 2018 and 2017 have not been reviewed by the Company's auditor.**

# Almonty Industries Inc.

## Interim Condensed Consolidated Balance Sheets

As at December 31 and September 30, 2018

(Unaudited)

(in 000's of Canadian dollars)

	<b>December 31</b>	<b>September 30</b>
	<b>2018</b>	<b>2018</b>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	9,457	8,721
Trade receivables	2,101	2,674
Recoverable taxes receivable	1,702	1,960
Inventories (Note 4)	9,160	9,698
Prepaid expenses and other current assets	1,075	1,416
<b>Total Current Assets</b>	<b>23,495</b>	<b>24,469</b>
Mining assets (Note 5)	92,539	91,255
Tailings inventory (Note 4)	30,316	28,084
Deferred tax assets	1,201	1,226
Restricted cash (Note 9)	1,279	1,245
Other assets	1,035	1,023
<b>Total Assets</b>	<b>149,865</b>	<b>147,302</b>
<b>Liabilities</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued liabilities (Note 7)	15,897	25,673
Deferred revenue	1,115	1,542
Current portion of long-term debt (Note 8)	30,278	25,876
<b>Total Current Liabilities</b>	<b>47,290</b>	<b>53,091</b>
Long-term debt (Note 8)	22,327	24,455
Restoration provision and other liabilities (Note 9)	30,053	28,893
Deferred tax liabilities	15	-
<b>Total Liabilities</b>	<b>99,685</b>	<b>106,439</b>
<b>Shareholders' Equity</b>		
Share capital (Note 10)	91,626	91,626
Equity portion of convertible debentures (Note 8(d))	819	819
Contributed surplus	4,579	4,579
Accumulated other comprehensive income	4,452	2,392
Deficit	(51,296)	(58,553)
<b>Total Shareholders' Equity</b>	<b>50,180</b>	<b>40,863</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>149,865</b>	<b>147,302</b>

*See accompanying notes*

Nature of operations (Note 1)

Commitments and contingent liabilities (Note 16)

**Almonty Industries Inc.**  
**Interim Condensed Consolidated Statements of Operations and Comprehensive Income (Loss)**

**For the Three Months Ended December 31, 2018 and 2017**

(Unaudited)

(in 000's of Canadian dollars unless otherwise noted)

	<b>2018</b>	<b>2017</b>
<b>Revenue</b>	16,412	10,767
<b>Cost of sales</b>		
Production costs	8,845	7,814
Reversal of impairment loss (Note 6)	(4,150)	-
Depreciation and amortization	1,474	2,272
<b>Income from mining operations</b>	<b>10,243</b>	<b>681</b>
<b>Expenses</b>		
General and administrative (Note 17)	1,834	1,982
	<b>8,409</b>	<b>(1,301)</b>
Interest expense	648	617
Gain on debt settlement	(1,015)	-
Foreign exchange loss	1,411	233
<b>Income (loss) before income taxes</b>	<b>7,365</b>	<b>(2,151)</b>
Income tax expense (Note 11)		
Current	37	-
Deferred	71	-
	<b>108</b>	<b>-</b>
<b>Net income (loss) for the period</b>	<b>7,257</b>	<b>(2,151)</b>
<b>Other Comprehensive income (loss)</b>		
Net income (loss) for the period	7,257	(2,151)
<i>Items that may be reclassified subsequently to profit/loss</i>		
Foreign currency translation adjustment	2,060	211
<b>Comprehensive income (loss) for the period</b>	<b>9,317</b>	<b>(1,940)</b>
<b>Income (loss) per share</b>		
Basic income (loss) per share	<b>\$0.04</b>	<b>(\$0.01)</b>
Fully-diluted income (loss) per share	<b>\$0.04</b>	<b>(\$0.01)</b>
Weighted average common shares outstanding:		
Basic	181,441,893	174,661,936
Fully-diluted	182,443,143	174,661,936

*See accompanying notes*

**Almonty Industries Inc.**  
**Interim Condensed Consolidated Statements of Changes in Shareholders' Equity**

**For the Three Months Ended December 31, 2018 and 2017**

(Unaudited)

(in 000's of Canadian dollars unless otherwise noted)

	Share Capital	Equity Portion of Convertible Debentures	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
<b>Balance at September 30, 2017</b>	<b>86,350</b>	<b>167</b>	<b>4,203</b>	<b>2,769</b>	<b>(47,864)</b>	<b>45,625</b>
Issuance of common shares for cash (Note 10)	3,265	-	-	-	-	3,265
Repurchase of common shares	(38)	-	-	-	-	(38)
Net loss and other comprehensive loss for the period	-	-	-	211	(2,151)	(1,940)
<b>Balance at December 31, 2017</b>	<b>89,577</b>	<b>167</b>	<b>4,203</b>	<b>2,980</b>	<b>(50,015)</b>	<b>46,912</b>
<b>Balance at September 30, 2018</b>	<b>91,626</b>	<b>819</b>	<b>4,579</b>	<b>2,392</b>	<b>(58,553)</b>	<b>40,863</b>
Net income and other comprehensive income for the period	-	-	-	2,060	7,257	9,317
<b>Balance at December 31, 2018</b>	<b>91,626</b>	<b>819</b>	<b>4,579</b>	<b>4,452</b>	<b>(51,296)</b>	<b>50,180</b>

*See accompanying notes*

# Almonty Industries Inc.

## Interim Condensed Consolidated Statements of Cash Flows

For the Three Months Ended December 31, 2018 and 2017

(Unaudited)

(in 000's of Canadian dollars unless otherwise noted)

	<u>2018</u>	<u>2017</u>
<b>Operating activities</b>		
Net income (loss) for the period	7,257	(2,151)
Add (deduct) non-cash items:		
Depreciation and amortization	1,474	2,272
Interest expense	648	617
Income tax expense	108	-
Reversal of impairment loss (Note 6)	(4,150)	-
Inventory impairment charges (reversals) (Note 4)	-	(1,695)
Loss on disposal of assets	-	6
Gain on debt settlement	(1,015)	-
Unrealized foreign exchange losses	1,427	249
Other non-cash charges	(11)	(4)
	<u>5,738</u>	<u>(706)</u>
Interest paid	(291)	(341)
Changes in non-cash working capital		
Trade receivables	654	(137)
Recoverable taxes receivable	314	25
Inventories	983	(509)
Prepaid expenses and other current assets	373	57
Accounts payable and accrued liabilities	(4,824)	1,274
Deferred revenue	(469)	(757)
Net change in non-cash working capital	<u>(2,969)</u>	<u>(47)</u>
Change in tailings inventory	<u>(848)</u>	<u>(999)</u>
<b>Cash flow provided by (used in) operating activities</b>	<b><u>1,630</u></b>	<b><u>(2,093)</u></b>
<b>Investing activities</b>		
Additions to mining assets	(1,631)	(1,370)
Proceeds on disposition of assets	-	17
Restricted cash and other	44	(4)
<b>Cash flow used in investing activities</b>	<b><u>(1,587)</u></b>	<b><u>(1,357)</u></b>
<b>Financing activities</b>		
Issuance of common shares	-	3,265
Repurchase of common stock	-	(38)
Issuance of long-term debt	2,000	-
Repayment of long-term debt	(1,614)	(515)
<b>Cash flow provided by financing activities</b>	<b><u>386</u></b>	<b><u>2,712</u></b>
Effect of foreign exchange on cash	<u>307</u>	<u>35</u>
<b>Net increase (decrease) in cash during the period</b>	<b>736</b>	<b>(703)</b>
Cash at beginning of period	8,721	4,473
<b>Cash at end of period</b>	<b><u>9,457</u></b>	<b><u>3,770</u></b>

See accompanying notes

# **Almonty Industries Inc.**

## **Notes to the Interim Condensed Consolidated Financial Statements**

**For the Three Months Ended December 31, 2018 and 2017**

(Unaudited)

(In 000's of Canadian dollars, unless otherwise noted)

### **1. Nature of operations**

Almonty Industries Inc. ("Almonty" or "the Company") is incorporated in Canada. The Company's shares were listed on the TSX Venture Exchange ("TSX-V") until May 31, 2018 and, on June 1, 2018, began trading on the Toronto Stock Exchange ("TSX"), trading under the symbol AII. As of July 11, 2018, the Company's shares were also listed on the OTCQX Best Markets ("OTCQX") under the symbol ALMTF. The head office of the Company is located at 100 King Street West, Suite 5700, Toronto, Ontario, M5X 1C7. The principal business of Almonty is the mining, processing and shipping of tungsten concentrate from the Los Santos tungsten mine located near Salamanca, Spain (the "Los Santos Mine") and the Panasquiera tin and tungsten mine in Covilha, Castelo Branco, Portugal (the "Panasquiera Mine") as well as the exploration and evaluation of the Sangdong tungsten project located in Gangwon Province, Republic of Korea, (the "Sangdong Project") and the Valtreixal tin and tungsten project, located in the province of Zamora in Western Spain (the "Valtreixal Project").

Although the Company has taken steps to verify the title to the properties on which it is conducting its exploration, development and mining activities, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, unrestricted prior agreements, unregistered claims, aboriginal land claims and non-compliance with regulatory and environmental requirements. The Company's mining and exploration activities are subject to laws and regulations relating to the environment, which are continually changing, and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to remain in compliance.

These unaudited interim condensed consolidated financial statements have been prepared on a going concern basis which assumes that the Company will continue operating for the foreseeable future and will be able to realize a return on its assets and discharge its liabilities and commitments in the ordinary course of its business.

As at December 31, 2018, the Company had a working capital deficiency of \$23,795 (September 30, 2018 - \$28,622). Through fiscal 2018, tungsten prices increased resulting in improved cash flows from the Company's operations. During fiscal 2019, the Company extended the maturity date of a \$6,000 convertible debenture, originally due in 2019, to 2021 (Note 8(d)). The Company's current forecast indicates that it will have sufficient cash flows from operations for at least the next year to continue as a going concern and settle obligations as they come due. However, the Company will be required to refinance various long-term debt facilities that are coming due in the next year. In addition, Management expects to require financing to complete the exploration and development of the Sangdong Project and plans to secure the necessary financing through new equity and debt arrangements. During the period ended December 31, 2018, the Company completed a private placement of unsecured convertible debentures with a principal amount of \$2,000. The Company's ability to continue as a going concern in the long term depends upon the continued recovery and stability of tungsten prices, the Company's ability to improve the

## **Almonty Industries Inc.**

### **Notes to the Interim Condensed Consolidated Financial Statements**

#### **For the Three Months Ended December 31, 2018 and 2017**

(Unaudited)

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profitability of its existing mining operations and the Company's ability to refinance its debt obligations as they come due.

## 2. Basis of Preparation

### a) Statement of compliance

These unaudited interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". These financial statements do not include all the information and disclosures required in the Company's annual financial statements and should be read in conjunction with the Company's audited annual consolidated financial statements for the year ended September 30, 2018.

These interim condensed consolidated financial statements have been prepared on a historical cost basis, except for fair-value through-profit-or-loss financial assets and liabilities, available-for-sale financial assets and derivative financial instruments, which are measured at fair value.

These unaudited interim condensed consolidated financial statements were authorized for issuance by the Board of Directors on February 14, 2019.

### b) Basis of preparation and principles of consolidation

Subsidiaries are fully consolidated from the date of acquisition, being the date on which Almonty obtains control, and continue to be consolidated until the date when such control ceases. The Company controls an investee if the Company has:

- power over the investee;
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including but not limited to:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Company's potential voting rights.

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. Assets, liabilities, income and expenses of a subsidiary are included in the interim condensed consolidated balance sheet and statement of operations and comprehensive income (loss) from the date that the Company gains control until the date that the Company ceases to control the subsidiary.

These interim condensed consolidated financial statements include the accounts of the Company and its 100%-owned subsidiaries, Daytal Resources Spain S.L. ("Daytal"), Beralt Ventures Inc. ("BVI"), Beralt Tin and Wolfram (Portugal) SA ("BTW"), 7887523 Canada Inc. ("Almonty Sub"),



## **Almonty Industries Inc.**

### **Notes to the Interim Condensed Consolidated Financial Statements**

#### **For the Three Months Ended December 31, 2018 and 2017**

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(In 000's of Canadian dollars, unless otherwise noted)

Tropical Metals Pty Ltd. ("TM"), Wolfram Camp Mining Pty Ltd. ("WCM"), Valtreixal Resources Spain ("VRS"), and Woulfe Mining Corp. ("Woulfe") and its four wholly-owned subsidiaries ("Woulfe Subs").

All intercompany balances, transactions, unrealized gains and losses resulting from intercompany transactions and dividends have been eliminated on consolidation.

#### **c) Economic dependence**

Almonty's wholly-owned subsidiaries, Daytal and BTW participate in the global tungsten business. Currently, the majority of the output of Almonty's operations is sold to one customer, which customer is a shareholder of the Company. There is no guarantee that Almonty would be able to find an alternative customer or customers on market terms to replace this revenue.

#### **d) Foreign currency translation**

These interim condensed consolidated financial statements are presented in Canadian dollars. The functional currency of Almonty and its subsidiaries is the Canadian dollar except for Daytal, BVI, BTW and VRS whose functional currency is the Euro ("€") and TM and WCM, whose functional currency is the Australian Dollar.

Transactions denominated in a currency other than the functional currency of Almonty or its respective subsidiaries, including revenues earned by Daytal and BTW which are denominated in US\$, are translated into their respective functional currencies using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate in effect at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the historical exchange rate. Exchange gains and losses are recognized in profit or loss in the period in which they arise.

For the purpose of presenting the interim condensed consolidated financial statements, the assets and liabilities of the foreign operations are translated into Canadian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange gains and losses arising from translation are recognized as a separate component of equity and as a foreign currency translation adjustment in other comprehensive income (loss).

#### **e) Critical judgments and estimates**

The preparation of financial statements requires management to make judgments, estimates and form assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and reported amount of revenues and expenses during the reporting period. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis.

# **Almonty Industries Inc.**

## **Notes to the Interim Condensed Consolidated Financial Statements**

### **For the Three Months Ended December 31, 2018 and 2017**

(Unaudited)

(In 000's of Canadian dollars, unless otherwise noted)

#### **Critical judgments**

**(i) Functional currency**

The functional currency of the Company and each of its subsidiaries is the currency of the primary economic environment in which the entities operate. Assessment of functional currency involves certain judgments to determine the primary economic environment and the Company reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

**(ii) Tailings inventory**

The valuation of tailings inventory at the Company's Los Santos Mine requires management to make judgements regarding the ability to reprocess the tailings inventory and the recoverability of the tungsten contained in the tailings inventory.

**(iii) Going concern**

The preparation of these interim condensed consolidated financial statements requires management to make judgments regarding its ability to continue as a going concern as discussed in Note 1.

#### **Key sources of estimation uncertainty**

**(i) Ore reserves and mineral resources estimates**

Ore reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. Almonty estimates its ore reserves and mineral resources based on information compiled by appropriately qualified persons relating to the geological data on the size, depth and shape of the ore body, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of foreign exchange rates, commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade of the ore body. Changes in the ore reserve or mineral resource estimates may impact upon the carrying value of exploration and evaluation assets, mineral property, plant and equipment, provision for rehabilitation, recognition of deferred tax assets, and depreciation and amortization charges.

**(ii) Mine rehabilitation and restoration provision**

Almonty assesses its mine rehabilitation provision annually. Significant estimates and assumptions are made in determining the provision for mine rehabilitation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to the inflation rates, and changes in discount rates. These uncertainties may result in future actual expenditures differing from the amounts currently provided.

The provision at the reporting date represents management's best estimate of the present value of the future rehabilitation costs required. Changes to estimated future costs are recognized in

## **Almonty Industries Inc.**

### **Notes to the Interim Condensed Consolidated Financial Statements For the Three Months Ended December 31, 2018 and 2017**

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the interim condensed consolidated balance sheet by either increasing or decreasing the rehabilitation asset and liability. Significant assumptions related to mine rehabilitation and restoration provisions are disclosed in Note 9.

#### **(iii) Impairment of mineral property, plant and equipment and exploration and evaluation assets**

The Company evaluates each asset or cash generating unit every year to determine whether there are any indications of impairment or impairment reversals. If any such indication exists, which is often judgmental, a formal estimate of the recoverable amount is performed and an impairment loss or recovery is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset or cash generating group of assets is measured at the higher of fair value less costs to sell and value in use. The evaluation of asset carrying values for indications of impairment includes consideration of both external and internal sources of information, including such factors as market and economic conditions, production budgets and forecasts, and life-of-mine estimates.

When required, the determination of fair value and value in use requires management to make estimates and assumptions about expected production, sales volumes, commodity prices, mineral resources, operating costs, and future capital expenditures. The estimates and assumptions are subject to risk and uncertainty; hence, there is the possibility that changes in circumstances will alter these projections, which may impact the recoverable amount of the assets. In such circumstances, some or all of the carrying value of the assets may be further impaired or the impairment charge reduced with the impact recorded in profit or loss. Significant assumptions used in the Company's impairment analysis are disclosed in Note 6.

#### **(iv) Inventory**

The net recoverable value of ore stock piles,  $WO_3$  in concentrate and tailings inventory is based on the quantity of recoverable metal in inventory which is an estimate based on the tons of ore or  $WO_3$  in concentrate, contained  $WO_3$  based on assay data, and the estimated recovery percentage based on the expected processing method. Changes in these estimates could affect the net realizable value of inventory and could result in an impairment of inventory. The net realizable value of long-term tailings inventory also requires estimates related to future sales prices.

#### **(v) Deferred stripping**

The calculation of the life-of-mine stripping ratio requires the use of judgments and estimates such as estimates of tonnes of waste to be removed over the life of the mining area and economically recoverable reserves to be extracted as a result. Changes in a mine's life and design may result in changes to the expected stripping ratio (waste to mineral reserves ratio) and amounts that are capitalized or included in production costs. Should the estimate of the stripping ratio change over time as a result of a change/optimization in the design of the open pits, then Almonty will revise the deferral and amortization rates related to its deferred stripping expenditures. Such changes are accounted for prospectively.

# **Almonty Industries Inc.**

## **Notes to the Interim Condensed Consolidated Financial Statements**

### **For the Three Months Ended December 31, 2018 and 2017**

(Unaudited)

(In 000's of Canadian dollars, unless otherwise noted)

#### **(vi) Income taxes**

The determination of the Company's tax expense for the period and deferred tax assets and liabilities involves significant estimation and judgment by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. Management also makes estimates of future earnings, which affect the extent to which potential future tax benefits may be used.

#### **f) New accounting standards and interpretations and those not yet adopted**

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the International Accounting Standards Board ("IASB") or IFRS Interpretation Committee ("IFRIC") and are effective for annual periods beginning after September 30, 2018.

The Company has adopted the following new and revised standards, along with all consequential amendments, effective October 1, 2018:

##### **IFRS 9 - Financial Instruments**

IFRS 9, Financial Instruments was issued in final form by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets.

Most requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also amends the impairment model by introducing a new 'expected credit loss' model for calculating impairment. IFRS 9 also includes a new general hedge accounting standard which aligns hedge accounting more closely with risk management. This new standard does not fundamentally change the types of hedging relationships or the requirement to measure and recognize ineffectiveness, however it will provide more hedging strategies that are used for risk management to qualify for hedge accounting and introduce more judgment to assess the effectiveness of a hedging relationship.

The Company adopted IFRS 9 on October 1, 2018 and has determined that there was no material impact on its consolidated financial statements as a result of the adoption.

##### **IFRS 15 - Revenue from Contracts with Customers**

IFRS 15, "Revenue from Contracts with Customers": the standard was issued in May 2014 and amended in April 2016. IFRS 15 applies to contracts with customers, excluding, most notably, insurance and leasing contracts. IFRS 15 prescribes a framework in accounting for revenues from contracts within its scope, including (a) identifying the contract, (b) identify separate performance obligations in the contract, (c) determine the transaction price of the contract, (d) allocate the transaction price to the performance obligations and (e) recognize revenues when each performance obligation is satisfied. IFRS 15 also prescribes additional financial statement presentations and disclosures. The Company adopted IFRS 15 on October 1, 2018, under the modified retrospective method where the cumulative effect is recognized at the date of initial application. It has been

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## **Notes to the Interim Condensed Consolidated Financial Statements For the Three Months Ended December 31, 2018 and 2017**

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concluded that the adoption of IFRS 15 had no material effect on the Company's consolidated financial statements.

New accounting standard not yet adopted:

### **IFRS 16 - Leases**

In January 2016, the IASB issued IFRS 16 – Leases (“IFRS 16”) which replaces IAS 17 – Leases (“IAS 17”) and related interpretations. IFRS 16 provides a single lessee accounting model requiring the recognition of assets and liabilities for all leases unless the lease term is 12-months or less or the underlying asset has a low value. 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 substantially carries forward the lessor accounting in IAS 17 with the distinction between operating leases and finance leases being retained while requiring enhanced disclosures to be provided by lessors. Other areas of the lease accounting model have been impacted, including the definition of a lease.

The new standard is effective for the Company on October 1, 2019. The Company does not expect to adopt IFRS prior to its mandatory effective date. The impact that adoption of IFRS 16 will have on its interim condensed consolidated financial statements has not yet been determined.

## **3. Significant Accounting Policies**

### **Cash and cash equivalents**

Cash and cash equivalents comprise cash at banks and on hand, and short-term deposits with a maturity of three months or less at the date of acquisition that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Company currently does not have any cash equivalents.

### **Inventories**

Inventories are valued at the lower of cost and net realizable value. Net realizable value represents the estimated future sales price of the product based on prevailing metal prices at the reporting date, less estimated costs to complete production and bring the product to sale.

The cost of stores and fuel inventory is determined on a weighted average acquisition cost basis.

Cost of ore stockpiles is determined on a weighted average cost basis and includes the costs of mining the ore including the cost of stores and fuel inventory used in the mining process, direct labor, depreciation and amortization and an appropriate portion of variable and fixed overheads. Stockpiles are measured by estimating the number of tonnes added and removed from the stockpile, the amount of contained tungsten tri-oxide ( $WO_3$ ) based on assay data, and the estimated recovery percentage based on the expected processing method. Stockpile tonnages are verified by periodic surveys.

$WO_3$  in concentrate (" $WO_3$  concentrate") and  $WO_3$  in circuit are physically measured or estimated. Cost of  $WO_3$  concentrate and  $WO_3$  in circuit is determined on a weighted average production cost

## **Almonty Industries Inc.**

### **Notes to the Interim Condensed Consolidated Financial Statements**

**For the Three Months Ended December 31, 2018 and 2017**

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basis and comprises cost of stock-piled ore processed, processing costs including the cost of stores and fuel inventory used, direct labor, and an appropriate portion of fixed and variable overhead costs, including depreciation and amortization, incurred in converting ore into finished concentrate.

Tailings inventory represents stockpiles of low grade tailings that has been mined and processed and is available for reprocessing. As not all tailings inventory will be reprocessed within one year of the date of these financial statements, a portion of the carrying amount related to the tailings inventory has been classified as a non-current asset in the interim condensed consolidated balance sheets. The allocation of costs to  $WO_3$  in concentrate inventory and tailings inventory is determined based on the relative amounts of recoverable  $WO_3$  contained in the concentrate and tailings produced.

#### **Mining assets**

##### **(a) Mineral property, plant and equipment:**

Mineral property, plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation and, for qualifying assets, borrowing costs. The capitalization of certain mine construction costs ceases when a mine construction project moves into the production stage. When parts of mineral property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of mineral property, plant and equipment.

The cost of replacing plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced item is derecognized. The costs of the day-to-day servicing of plant and equipment are expensed.

Accumulated mine development costs and property plant and equipment that is directly related to the production of tungsten concentrate and that has a useful life that is equal to or in excess of the estimated life-of-mine, are depreciated on a unit-of-production basis over the economically recoverable resources of the mine ("ROM"). The unit of account for the ROM costs are tonnes of ore whereas the unit of account for post-ROM costs are recoverable MTUs of  $WO_3$ . Rights and concessions are depleted on the unit-of-production basis over the total resources. The unit-of-production rate for the depreciation of mine development costs takes into account expenditures incurred to date.

Other plant and equipment such as mobile mine equipment is generally depreciated on a straight-line basis over their estimated useful lives of 3 to 10 years. Leasehold improvements are amortized over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

##### **(b) Exploration and evaluation assets**

Exploration and evaluation costs relate to the initial search for a mineral deposit, the cost of acquisition of a mineral property interest or exploration rights and the subsequent evaluation to

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determine the economic potential of the mineral deposit. The exploration and evaluation stage commences when the Company obtains the legal right or license to begin exploration and subsequently exploration and evaluation expenses are capitalized as exploration and evaluation assets. Costs incurred prior to the Company obtaining the legal rights are expensed.

When the exploration and evaluation of a mineral property indicates that development of the mineral property is technically and commercially feasible, the future economic benefits are probable, and the Company has the intention and sufficient resources to complete the development and use or sell the asset, the related costs are first assessed for impairment and then transferred from exploration and evaluation assets to mineral property, plant and equipment.

Management reviews the carrying value of capitalized exploration costs for indicators that the carrying value is impaired in each reporting period. The review is based on the Company's intentions for further exploration and development of the undeveloped property, results of drilling, commodity prices and other economic and geological factors. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a property does not prove viable, all non-recoverable costs associated with the project, net of any previous impairment provisions, are written off.

#### **(c) Deferred stripping expenditures**

Pre-production costs of removing overburden to access ore in open pit mines and developing access headings in underground mines are capitalized as pre-production stripping or development costs respectively and are included within mineral property, plant and equipment.

Advanced stripping costs incurred during the production stage of operations are deferred as part of mining assets and amortized on a unit-of-production basis over the life of the related ore body components. Stripping costs are capitalized only if (1) it is probable that the future economic benefit associated with the activity will flow to the Company; (2) the Company can estimate the mineral reserve of the ore body for which access has been improved; and (3) the costs relating to the activity associated with that mineral reserve can be measured reliably. Stripping costs are capitalized if the strip ratio in the reporting period exceeds the average life of mine strip ratio based on the ratio of the actual strip ratio for the period relative to the average life of mine strip ratio.

#### **Mine rehabilitation and restoration provisions**

The Company records the present value of estimated costs of legal and constructive obligations related to mine rehabilitation and restoration in the period in which the obligation occurs. Mine rehabilitation and restoration activities include facility decommissioning and dismantling; removal and treatment of waste materials; site and land rehabilitation, including compliance with and monitoring of environmental regulations; and related costs required to perform this work and/or operate equipment designed to reduce or eliminate environmental effects. The provision is adjusted each period for new disturbances, and changes in regulatory requirements, the estimated amount of future cash flows required to discharge the obligation, the timing of such cash flows and the pre-tax

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discount rate specific to the liability. The unwinding of the discount is recognized in profit or loss as interest expense.

When the provision is initially recognized, the corresponding cost is capitalized by increasing the carrying amount of the related asset, and is amortized to profit or loss on a unit-of-production basis. Changes to estimated future costs are recognized in the interim condensed consolidated balance sheet by either increasing or decreasing the rehabilitation asset and liability. Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to income.

#### **Other provisions**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation as at the balance sheet date. If the effect of the time value of money is material, provisions are discounted using a current discount rate that reflects the time value of money and the risks specific to the liability.

#### **Leases**

Leases of plant and equipment under which Almonty assumes substantially all the risks and benefits identical to ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between interest expense and the reduction of the outstanding liability. The interest expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the lease term.

#### **Financial instruments**

##### **(a) Financial assets**

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL"). Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized in profit or loss. Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary which recognized in profit or loss.



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Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

### (b) Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Transaction costs directly attributable to financial liabilities classified as other financial liabilities are recognized as a reduction of the carrying value of the liability. Transaction costs related to liabilities classified as FVTPL are expensed. Subsequently, other financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Changes in fair value of financial liabilities classified as FVTPL are recognized in profit or loss.

### (c) Classification

The Company has classified financial assets and liabilities as follows:

Asset/Liability	Category	Measurement
Cash	Loans and receivables	Amortized cost
Trade receivables	Loans and receivables	Amortized cost
Restricted cash	Loans and receivables	Amortized cost
Promissory note and deposits	Loans and receivables	Amortized cost
Bank indebtedness	Other financial liabilities	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost

### (d) Compound Financial Instruments

The Company evaluates the terms of its financial instruments to determine whether they are compound financial instruments containing a liability and equity component. Such components are classified separately by their nature as either financial liabilities or equity instruments. The initial carrying amounts of the financial liability component of a compound financial instrument is recognized at the fair value of a similar financial liability that does not have an equity component and the residual value is allocated to equity component. Transaction costs related to compound financial instruments are allocated between liability and equity components in proportion to their initial carrying amounts. Liability components are subsequently measured at amortized cost using the effective interest method. Equity components are not re-measured subsequent to initial recognition. On conversion or expiry, the equity component is transferred to share capital or contributed surplus as applicable.

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#### **(e) Derivative financial instruments**

From time to time, the Company holds derivative financial instruments to mitigate risks related to changes in commodity prices or to change the interest rates of its loans and borrowings. Embedded derivatives are separated from the host contract and accounted for separately if certain criteria are met.

Derivatives are initially recognized at their fair value and the attributable transaction costs are recognized in profit or loss when incurred. After initial recognition, derivatives are measured at fair value and their changes are recorded in profit or loss.

Trade receivables related to contracts that are provisionally priced include embedded derivatives which are measured at fair value with changes recognized in profit or loss.

#### **Impairment of assets**

##### **(a) Financial assets**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in accumulated other comprehensive income in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss recognized previously in profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

##### **(b) Non-Financial assets**

At each reporting date, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). For purposes of impairment testing, assets are grouped at the lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value

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using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed through profit or loss only to the extent that the asset or cash generating unit's carrying amount does not exceed the carrying amount that would have been determined, net of any applicable depreciation, if no impairment loss had been recognized.

#### **Revenue recognition**

Revenue from the sale of WO<sub>3</sub> concentrate is recognized when the significant risks and rewards of ownership have been transferred to the purchaser. The significant risks and rewards of ownership are deemed to be transferred to the purchaser generally when product is physically transferred onto a third-party vessel, train, ship or other delivery mechanism, depending on the mode of transport, and Almonty has paid all costs of shipping, freight and insurance to the destination specified by the purchaser.

#### **Income taxes**

Current income tax assets and liabilities are estimated as the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where Almonty and its subsidiaries operate and generates taxable income. Current income tax is recognized in profit or loss except for income taxes relating to items recognized directly in other comprehensive income or equity, in which case the related current tax is also recognized in other comprehensive income or equity. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions, where appropriate.

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 income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. Deferred income 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. Deferred income tax is not recognized for the initial recognition of assets or liabilities in a transaction that is not a business combination and that effects neither accounting nor taxable income or loss, differences related to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future and taxable differences arising from the initial recognition of goodwill.

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A deferred income 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 income 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.

#### **Income (loss) per share**

Income (loss) per share is based on the weighted average number of common shares outstanding for the period.

Diluted income (loss) per common share is calculated by adjusting the weighted average number of common shares outstanding for the effect of conversion of all potentially dilutive share equivalents, such as stock options and warrants, and assumes that the receipt of proceeds upon exercise of the options are used to repurchase common shares at the average market price during the period. The net effect of the shares issued less the shares assumed to be repurchased is added to the basic weighted average shares outstanding. For convertible instruments, the common shares to be included in the diluted per share calculation assumes that the instrument is converted at the beginning of the period (or the issue date if later). The profit or loss attributable to common shareholders is adjusted to eliminate related interest costs recognized in profit or loss for the period.

In a period when the Company reports a loss, the effect of potential issuances of shares under options and warrants outstanding would be anti-dilutive and, therefore basic and diluted loss and comprehensive per share are the same.

#### **Employee Benefits**

Short-term employee benefit obligations are recognized as personnel expenses as the corresponding service is provided. Liabilities are recognized at the amount that is expected to be paid if Company has a present legal or constructive obligation to pay that amount based on past services rendered by the employee, and the obligation can be estimated reliably.

#### **Share-based payment transactions**

Employees, directors and service providers of the Company may receive a portion of their compensation in the form of share-based payments.

Share-based payments to non-employees are recognized based on the fair value of the services received. If the fair value of the goods or services received cannot be reliably estimated, share-based payments are measured based on the fair value of the equity instruments. Share-based payments to employees are recognized based on the fair value of the equity instruments issued.

The costs of share-based payments are measured by reference to the fair value of the equity instrument at the date on which they are granted and are recognized, together with a corresponding increase in contributed surplus, over the period in which the performance and/or service conditions are fulfilled which typically is the date on which the relevant employees become fully entitled to the award (vesting period). The cumulative expense recognized reflects the Company's best estimate of the number of equity instruments that will ultimately vest. No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market

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condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance or service conditions are satisfied.

#### Acquisitions, business combinations and goodwill

At the time of acquisition, the Company determines whether what is acquired meets the definition of a business, in which case, the transaction is considered a business combination, and otherwise it is recorded as an asset acquisition.

For an asset acquisition, the fair value of the consideration paid is allocated to the net identifiable assets and liabilities acquired based on their relative fair values at the acquisition date. Acquisition related costs are included in the consideration paid and capitalized. No goodwill is recorded and no deferred tax asset or liability arising from the assets acquired or liabilities assumed are recognized upon the acquisition of the assets.

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value, and the amount of any non-controlling interest acquired. The Company measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets which is determined on a transaction by transaction basis. Acquisition costs incurred are expensed and included in general and administrative expenses.

Any contingent consideration is recognized at fair value at the acquisition date. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and changes in the fair value of the contingent consideration are recognized in profit or loss.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the fair value of the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net identifiable assets of the subsidiary acquired, the difference is recognized in profit or loss.

#### 4. Inventories

	<b>December 31</b>	<b>September 30</b>
	<b>2018</b>	<b>2018</b>
Stores and fuel	5,190	4,813
Ore and in-process ore	1,207	1,707
Finished goods - WO <sub>3</sub> concentrate	740	1,294
Tailings	2,023	1,884
<b>Current inventories</b>	<b>9,160</b>	<b>9,698</b>
Tailings	30,316	28,084
	<b>39,476</b>	<b>37,782</b>

Changes in inventories and impairment charges and reversal of impairment charges are recognized in mine operating costs. The tailings inventory is net of previously recognized provisions to net

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realizable value of \$7,895 which have not yet been reversed. A portion of the tailings inventories are classified as long term as these inventories are not expected to be processed in the next year.

5. Mining assets

	Plant and Equipment	Mineral Property Acquisition and Development Costs	Exploration and Evaluation Projects	Total
<b>Cost</b>				
Balance at September 30, 2017	53,225	51,408	53,646	158,279
Additions	4,277	2,033	2,740	9,050
Impairment loss (Note 6)	(7,651)	(7,953)	-	(15,604)
Change in restoration provisions	(3,831)	(1,191)	213	(4,809)
Asset disposals	(2,049)	-	-	(2,049)
Translation adjustment	584	723	131	1,438
Balance at September 30, 2018	44,555	45,020	56,730	146,305
<b>Additions</b>	<b>675</b>	<b>216</b>	<b>607</b>	<b>1,498</b>
<b>Asset disposals</b>	<b>(55)</b>	<b>-</b>	<b>-</b>	<b>(55)</b>
<b>Translation adjustment</b>	<b>1,737</b>	<b>1,785</b>	<b>306</b>	<b>3,828</b>
<b>Balance at December 31, 2018</b>	<b>46,912</b>	<b>47,021</b>	<b>57,643</b>	<b>151,576</b>
<b>Accumulated Amortization</b>				
Balance at September 30, 2017	12,648	29,910	-	42,558
Amortization	4,907	8,824	-	13,731
Asset disposals	(1,775)	-	-	(1,775)
Translation adjustment	143	393	-	536
Balance at September 30, 2018	15,923	39,127	-	55,050
<b>Amortization</b>	<b>1,124</b>	<b>648</b>	<b>-</b>	<b>1,772</b>
<b>Asset disposals</b>	<b>(55)</b>	<b>-</b>	<b>-</b>	<b>(55)</b>
<b>Translation adjustment</b>	<b>711</b>	<b>1,559</b>	<b>-</b>	<b>2,270</b>
<b>Balance at December 31, 2018</b>	<b>17,703</b>	<b>41,334</b>	<b>-</b>	<b>59,037</b>
<b>Carrying Value</b>				
Balance at September 30, 2018	28,632	5,893	56,730	91,255
<b>Balance at December 31, 2018</b>	<b>29,209</b>	<b>5,687</b>	<b>57,643</b>	<b>92,539</b>

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#### 6. Impairment loss on Mining Assets

The Wolfram Camp Mine has been on care and maintenance since 2016 and the Company has no plans to restart operations and has received no offers to purchase the assets. Management considered these to be indicators of impairment. During the three months ended December 31, 2018, the Board of Directors of the Company determined that it was in the best interests of the Company to cease expending further funds towards refurbishment and maintenance of WCM and TM and, consequently, the Company caused WCM and TM to be placed into voluntary liquidation with all requisite approvals received. The Wolfram Camp Mine CGU has been written down to its estimated recoverable amount. The recoverable amount was based on a fair value less cost to sell model. As a result, an impairment loss of \$12,757 was recognized for the year ended September 30, 2018, of which \$7,651 was allocated to plant and equipment and \$5,106 to mineral property acquisition and development costs. During the period ended December 31, 2018, \$4,150 of the impairment loss was reversed.

The assets and liabilities of WCM and TCM included in these interim condensed consolidated financial statements are as follows:

<b>Assets</b>	
Cash	40
Other current assets	256
Mining assets	1,215
Restricted cash	1,279
<b>Total Assets</b>	<b>2,790</b>
<b>Liabilities</b>	
Accounts payable and accrued liabilities	181
Long-term debt	404
Restoration provision	2,205
<b>Total Liabilities</b>	<b>2,790</b>

During 2018, the Company changed its life of mine plan for the Daytal CGU and now plans to complete mining of the remaining ore in the second quarter of fiscal 2019 and commence reprocessing of tailings at that time. As a result, the Company recognized an impairment loss of \$2,847 for the year ended September 30, 2018, to write down certain pit development and stripping costs included in mineral property acquisition and development costs related to pits that will no longer be mined. In addition, Management considered the changes to the life of mine plan to be an indicator of impairment. Accordingly, the recoverable amount of the Daytal CGU was determined based on the value in use (VIU).

The VIU for the Daytal CGU was determined based on the net present value of the future cash flows expected to be generated from mining the remaining ore and processing the tailings using the most recent life of mine plans. Future tungsten prices are estimated based on observable market or publicly available data to estimate future revenues and operating costs are estimated based on current costs adjusted for anticipated changes. The future cash flows were discounted using a comparable discount rate for similar assets with the same market risk factors.

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The key assumptions used in these impairment tests as of September 30, 2018 and 2017 are summarized as follows:

	Assumptions	
	2018	2017
Future tungsten prices, per MTU	US\$300 - US\$320	US\$280 - US\$384
Discount rate - Daytal, Spain	7%	8%
Life of mine – Daytal, Spain	8 years	10 years

The life of mine includes ore mining and processing until the second quarter of fiscal 2019 and the processing of tailings thereafter until 2027.

Any variation in these key assumptions would result in a change in the VIU which may result in the requirement to recognize an additional impairment loss.

#### 7. Accounts Payable and Accrued Liabilities

The balance as of December 31, 2018 includes \$11,763 (September 30, 2018 - \$16,969) of trade accounts payable and \$4,134 (September 30, 2018 - \$8,704) of accrued liabilities.

During the three months ended December 31, 2018, the reversal of an amount payable to a supplier resulted in a gain of \$1,015.

#### 8. Long-term Debt

	December 31 2018	September 30 2018
Term loans - Euro	(a) 12,957	14,370
Term and other loans - US dollar	(b) 24,434	23,186
Convertible debentures	(d) 13,774	11,683
Obligations under capital leases	(e) 1,440	1,092
	52,605	50,331
Less: Current portion	(30,278)	(25,876)
	22,327	24,455

- a) The Company's wholly-owned Spanish subsidiary, Daytal, has in place Euro-denominated term loan facilities totaling \$10,161 (September 30, 2018 - \$11,588). The loans are unsecured, have maturity dates from January 2019 to September 2020 and require monthly payments of principal and interest. Of the loans, \$958 (September 30, 2018 - \$1,084) have fixed interest rates with a weighted average interest rate as at December 31, 2018 of 1.63% (September 30, 2018 – 1.64%). The remaining \$9,203 (September 30, 2018 - \$10,504) have floating interest rates, based on varying spreads from Euribor rates. As of December 31, 2018, the weighted average interest rate on these loans was 2.52% (September 30, 2018 - 2.52%).



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VRS has in place a Euro-denominated term loan with a balance of \$2,796 as of December 31, 2018 (September 30, 2018 - \$2,782). The loan is unsecured, bears interest at 2.5%, with monthly payments of principal and interest until it matures in May 2021.

- b) The Company has a term loan facility for up to US\$10,000 and a US\$7,000 revolving loan facility. The term loan is due on September 30, 2019. The revolving loan maturity date was extended from December 31, 2018 to December 31, 2019 during fiscal 2018. These loans bear interest at a rate based on the 3-month London Interbank Offered Rate ("Libor") rate plus 1.5%. As at December 31, 2018, the weighted average rate was 4.30% (September 30, 2018 - 2.41%). The loans are secured by certain assets of WCM, the shares of BVI and Almonty Sub, and are guaranteed by a third party. As at December 31, 2018, \$12,278 (US\$9,000) was outstanding under the term loan (September 30, 2018 - \$11,651 (US\$9,000)) and \$9,428 (US\$6,911) under the revolving loan facility (September 30, 2018 - \$8,945 (US\$6,911)).

Interest only was payable on the term loan until September 30, 2017 when the Company commenced making semi-annual principal repayments of US\$250, with the balance of the loan due at maturity on September 30, 2019. Principal and interest for the revolving loan are payable every three months with the amount payable determined based on tungsten production for the period and APT pricing levels. Principal payments are required only when the price of APT exceeds US\$254/MTU and accelerating payments are required when the price of APT exceeds US\$320/MTU. Any unpaid interest and principal is due at maturity. The Company may repay all or part of amounts owing under the term loan and revolving loan at any time without penalty.

The Company has issued two US\$1,000 secured promissory notes to Deutsche Rohstoff AG ("DRAG"), an existing shareholder of the Company which mature on January 1, 2020 and January 19, 2020, respectively. The notes bear interest at 6.0% per annum, with the accrued interest due on the maturity date. The loans are secured by a pledge of the shares of Woulfe. As at December 31, 2018, the outstanding loan balance was \$2,728 (US\$2,000) (September 30, 2018 - \$2,590 (US\$2,000)).

- c) All of the Company's previous Canadian dollar term and other loans totaling \$5,963, including accrued interest, were settled during the year ended September 30, 2018 as a result of a debt restructuring completed on January 30, 2018, whereby the Company issued a convertible debenture as described more fully in note 8(d). These loans were unsecured and bore interest at rates ranging from 4.0% to 12%.
- d) The following convertible debentures are outstanding as of December 31, 2018:
- (i) On December 18, 2018, the Company completed a non-brokered private placement of an unsecured convertible debenture with a principal amount of \$2,000, which debenture was acquired by DRAG. The debenture will mature on June 30, 2019 and bears interest at a rate of 6.0% per annum, payable semi-annually. Almonty may elect to convert the debenture into common shares upon the availability to the Company of full funding for the Sangdong Mine project at a conversion price equal to the higher of (a) the price per share in any equity financing completed by the Company after the date of issuance of the debenture and prior to the conversion or the maturity date of the debentures for purposes of financing the Sangdong Mine

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project and \$0.628. However, the Company may not convert the debentures if at any time the Company's shares trade below \$0.628 per share or if such conversion would result in DRAG holding more than 19.9% of the Company's issued and outstanding common shares. The estimated value of the conversion feature was not considered material.

- (ii) On January 30, 2018, the Company issued a convertible debenture as part of a debt restructuring (Note 8(c)) with a principal amount of \$5,963, which is due on January 31, 2020. The debenture is convertible into common shares of Almonty at \$1.00 per share. The debenture bears interest at a rate of 6.0% per annum, compounding quarterly, payable on the earlier of the maturity date or the date of conversion. The debenture is subject to covenants customary for such facilities and the lender has nominated a member of the Board of Directors. On issuance of the debenture, the Company estimated the liability and equity components as \$5,311 and \$652, respectively. The fair value of the liability component was determined by discounting the expected future cash outflows for principal and interest at a discount rate of 12.0%, representing a market rate of interest on similar debt without a conversion feature. The difference between the total proceeds of the loan and the amount allocated to the liability component was allocated to the equity component. As at December 31, 2018, the amortized cost of the debt was \$5,538 (September 30, 2018 - \$5,459) and the difference between the principal amount of the loan and the amortized cost is recognized in profit or loss over the period to maturity at an effective interest rate of 12%.
- (iii) The Company issued a \$230 (US\$173) secured convertible debenture in June 2017 in connection with a debt settlement. The debenture is due on June 23, 2022 and bears annual interest at 2.36%, payable quarterly. The debenture (including any accrued and unpaid interest) may be converted by the holder, at their option, into common shares of Almonty at an exercise price of \$0.3581 (US\$0.2625) per share. The estimated value of the conversion feature was not considered material. The debenture is secured by the shares of WCM. The carrying value of the loan, including accrued interest, at December 31, 2018 is \$236 (September 30, 2018 - \$224).
- (iv) The Company has a \$6,000 (September 30, 2018 - \$6,000) convertible debenture outstanding with DRAG, which bears interest at 4.0% per annum, payable quarterly in arrears. The debenture (including any accrued and unpaid interest) may be converted by the holder, at its option, into common shares of the Company at an exercise price of \$1.45 per share. The maturity date of the loan was March 22, 2019, which during the period ended December 31, 2018 was extended to March 22, 2021, and all other terms remained unchanged.

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Changes in the balances of the convertible debentures during the three months ended December 31, 2018 and the year ended September 30, 2018 are summarized as follows:

	<b>December 31</b>	<b>September 30</b>
	<b>2018</b>	<b>2018</b>
Balance, beginning of period	11,683	6,725
Debentures issued, liability component	2,000	5,311
Repayment of debenture, including interest	-	(551)
Interest	79	190
Translation adjustment	12	8
Balance, end of period	<u>13,774</u>	<u>11,683</u>

- e) The capital leases relate to certain equipment and vehicles. The leases carry implied interest rates of between 3.00% and 8.50%.
- f) Payments are due under the terms of the Company's loans and leases for each of the following years ended December 31 as follows:

2019	30,296
2020	15,815
2021	6,713
2022	236
	<u>53,060</u>
Less: Imputed interest on capital lease obligations	(30)
Less: Unamortized discount	(425)
	<u>52,605</u>

## 9. Restoration Provision and Other Liabilities

- a) Included in other long-term liabilities are provisions for the future restoration of the Company's mining properties, in accordance with local requirements, as follows:

Balance at September 30, 2017	32,335
Revisions in estimated cash flows and changes in assumptions	(4,809)
Accretion expense	435
Translation adjustment	542
Balance at September 30, 2018	28,503
<b>Accretion expense</b>	<b>79</b>
<b>Translation adjustment</b>	<b>1,109</b>
<b>Balance at December 31, 2018</b>	<b><u>29,691</u></b>

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As at December 31, 2018, there is a restoration provision of \$26,194 (September 30, 2018 - \$25,130) with respect to the Panasqueira Mine, representing management's estimate of the present value of the rehabilitation costs relating to the mine site which are estimated to total \$27,734 and are to be incurred after the mine ceases production subsequent to 2038. The estimate decreased by \$5,022 in 2018 due to changes in the manner and the timing in which the reclamation will occur and reductions in estimated costs of restoration of certain buildings and infrastructure as management continues to review restoration and rehabilitation costs. BTW has assumed an inflation rate of 2.0% per year in calculating its estimates and a discount rate of 1.3%.

There is a restoration provision of \$785 (September 30, 2018 - \$746) with respect to Daytal's future obligation to restore and reclaim the mine once it has ceased the processing of tungsten from the Los Santos Mine. The restoration provision represents management's estimate of the present value of the rehabilitation costs relating to the mine site which are estimated to total \$912 and are to be incurred beginning in 2027 after the Daytal ceases processing operations. Daytal has used a 5.5% discount rate and assumes an inflation rate of 2% per year in calculating its estimates. The Company has filed, and is awaiting final approval of its mine plan and restoration provision by the relevant authorities in Spain. Banco Popular has posted a bank warranty of \$281 (€180) on behalf of Daytal with the Region of Castilla y Leon, Trade and Industry Department as a form of deposit to cover the expected costs of restoring the mining property as required by Daytal's Environmental Impact Statement that forms a part of its mining and exploitation license on the Los Santos Mine.

There is a restoration provision of \$2,205 (September 30, 2018 - \$2,145) with respect to WCM's future obligation to restore and reclaim the mine. The cost of the restoration provision is estimated to be \$2,339. WCM has used a 3.25% discount rate and assumed an inflation rate of 1.5% per year in calculating its estimates. As at December 31, 2018, the Company had \$1,279 (September 30, 2018 - \$1,245) in restricted cash on deposit with the Queensland Government, Department of Natural Resources and Mines as required by the Department of Environment and Heritage Protection based on a revised mine plan approved in 2015. During the three months ended December 31, 2018, WCM was placed in voluntary liquidation.

There is a restoration provision of \$507 (September 30, 2018 - \$482) with respect to the Woulfe properties. The provision was determined based on a levy imposed by the relevant local government authority.

- b) Included in other long-term liabilities is \$362 (September 30, 2018 - \$390) related to employee benefit obligations in respect of government mandated pension plans in Woulfe's Korean subsidiary and in BTW.

## Almonty Industries Inc.

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#### 10. Share Capital

##### Common Shares

	<b>Number of Shares</b>	<b>Amount \$</b>
<b>Authorized - Unlimited number of common shares</b>		
<b>Issued and outstanding</b>		
Outstanding at September 30, 2017	169,751,679	86,350
Shares issued for cash	6,294,462	3,265
Shares issued on exercise of warrants	6,071,752	2,343
Shares repurchased under NCIB	(676,000)	(332)
<b>Outstanding at September 30 and December 31, 2018</b>	<b>181,441,893</b>	<b>91,626</b>

On October 19, 2017, the Company issued 5,000,000 Common shares at \$0.54 per share in a private placement, receiving gross proceeds of \$2,700. On October 25, 2017, the Company issued 1,294,462 Common shares at \$0.54 per share in a private placement, receiving gross proceeds of \$699. Costs of \$134 were incurred in connection with the placements.

##### Shares repurchased under NCIB

During the year ended September 30, 2018, the Company purchased 676,000 of its common shares for \$332 pursuant to a Normal Course Issuer Bid ("NCIB"). The NCIB was terminated on June 1, 2018.

##### Warrants

During the year ended September 30, 2018, the Company issued 6,071,752 common shares in connection with the exercise of share purchase warrants, all of which were exercisable at \$0.30 per share. In addition, during fiscal 2018, 670,468 warrants expired. As at December 31, 2018, 3,482,769 warrants were outstanding exercisable at \$1.26 until March 7, 2019.

##### Incentive Stock Options

Under Almonty's stock option plan, the Company can grant options to directors, officers, employees and consultants for up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of an option may not be less than the closing market price during the trading day immediately preceding the date of the grant of the option, less any applicable discount allowed by the TSX. Options can be granted for a maximum term of 10 years and vest at the discretion of the Company's Board of Directors. The existing plan was re-approved by Almonty's shareholders at its Annual and Special Meeting of Shareholders held on March 28, 2018.

## Almonty Industries Inc.

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As of December 31, 2018, the outstanding options, all of which are exercisable, are summarized as follows:

	<b>Number of Share Options</b>
Options outstanding at September 30, 2017	5,575,000
Options expired/forfeited	(650,000)
Options granted	1,275,000
<b>Options outstanding at September 30 and December 31, 2018</b>	<b>6,200,000</b>

Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price
\$0.33 - \$0.75	2,975,000	7.7 years	\$0.459
\$0.76 - \$0.99	2,325,000	8.2 years	\$0.838
\$1.00 - \$1.70	900,000	3.2 years	\$1.017
	<b>6,200,000</b>	<b>7.2 years</b>	<b>\$0.680</b>

On June 29, 2018, the Company granted 1,275,000 share options to directors, officers, consultants and employees pursuant to the Company's stock option plan. The options vested immediately and are exercisable for a period of 10 years from the grant date at \$0.87 per share. The grant resulted in stock-based compensation expense of \$897. The value of the stock options granted was determined using the Black-Scholes option pricing model using a risk-free interest rate of 2.20%, volatility of 78% based on historical volatility, expected life of 10 years, and no expected dividend yield.

## Almonty Industries Inc.

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#### 11. Income Taxes

Almonty has the following non-capital tax losses that expire in the years indicated:

	Canada	Spain	Korea	Portugal	Australia
	CADS	EUR	CADS	EUR	AUD
2020	-	-	25	-	-
2021	-	-	176	-	-
2022	-	-	912	-	-
2023	-	-	2,471	-	-
2024	-	-	27	-	-
2025	2,092	-	2,951	-	-
2026	3,625	-	2,062	-	-
2027 or later	30,162	7,818	3,229	3,299	20,452
Non-Capital losses in local currency	35,879	7,818	11,853	3,299	20,452
Non-Capital losses in CAD\$	<b>35,879</b>	<b>11,743</b>	<b>11,853</b>	<b>4,956</b>	<b>19,135</b>
Total Non-Capital losses in CAD\$					<b>83,566</b>

#### 12. Employee Compensation

The Company incurred costs of \$3,731 with respect to the costs of employee compensation and benefits for the three months ended December 31, 2018 (2017 - \$4,204).

#### 13. Segment Information

The Company's operations are segmented on a regional basis and are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments has been defined as the Chief Executive Officer.

Management monitors the business of Almonty as a single commodity segment, whose operations relate to the exploration and mining of tungsten across three geographical locations; the Iberian Peninsula (Spain and Portugal), Australia, and the Republic of Korea.

For management reporting purposes, the Company is organized into business units based on its products and activities, and has five reportable operating segments, as follows:

- The Los Santos Mine located in Spain whose operations relate to the exploration and mining of tungsten that is ultimately sold as tungsten concentrate;
- The Panasqueira Mine located in Covilha Castelo Branco, Portugal whose operations relate to the exploration and mining of tungsten which is ultimately sold as tungsten concentrate, as well as the production of copper and tin concentrate by-products that are sold as concentrate.
- The Valtreixal Project located in Spain whose operations relate to the exploration and evaluation activities of the Valtreixal tin/tungsten project;

# Almonty Industries Inc.

## Notes to the Interim Condensed Consolidated Financial Statements For the Three Months Ended December 31, 2018 and 2017

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- Woulfe, whose properties are located in Gangwon Province, Republic of Korea, and whose operations relate primarily to the exploration, evaluation and development of the Sangdong Project; and
- The Wolfram Camp Mine, located in Queensland, Australia, placed into voluntary liquidation during December, 2018.

The Company monitors the operating results of its operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on income (losses) from mining operations and is measured consistently with income (losses) from mining operations in the interim condensed consolidated financial statements.

The accounting policies used by Almonty in reporting segments internally are the same as those contained in Note 3.

Segmented information is as follows:

Three months ended December 31, 2018	Los Santos	Wolfram Camp Mine	Valtreixal	Woulfe	Panasquiera	Corporate	Adjustments and eliminations	Consolidated
Revenue	8,140	-	-	-	8,272	-	-	16,412
Production costs	2,690	-	-	-	6,155	-	-	8,845
Reversal of impairment loss	-	(4,150)	-	-	-	-	-	(4,150)
Depreciation and amortization	1,002	-	-	-	472	-	-	1,474
<b>Income from mining operations</b>	4,448	4,150	-	-	1,645	-	-	10,243
<b>Expenses</b>								
General and administrative	845	94	19	5	596	275	-	1,834
Interest expense	80	-	-	-	70	498	-	648
Foreign exchange (gain) loss	2	-	-	125	(16)	1,300	-	1,411
<b>Income (loss) before income taxes</b>	3,521	4,056	(19)	(130)	2,010	(2,073)	-	7,365
<b>Capital expenditures</b>	459	-	39	702	431	-	-	1,631
<b>December 31, 2018</b>								
<b>Assets</b>								
Current	7,646	296	167	389	13,444	1,553	-	23,495
Non-current	38,742	2,495	8,100	51,195	25,433	405	-	126,370
<b>Total assets</b>	46,388	2,791	8,267	51,584	38,877	1,958	-	149,865
<b>Total Liabilities</b>	16,330	2,790	3,776	2,745	32,596	41,448	-	99,685
<b>September 30, 2018</b>								
<b>Assets</b>								
Current	8,050	288	152	117	15,300	562	-	24,469
Non-current	37,179	2,427	7,755	50,629	24,471	372	-	122,833
<b>Total assets</b>	45,229	2,715	7,907	50,746	39,771	934	-	147,302
<b>Total Liabilities</b>	19,763	6,813	3,768	2,779	34,200	39,116	-	106,439



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Three months ended December 31, 2017	Wolfram Camp					Corporate	Adjustments and eliminations	Consolidated
	Los Santos	Mine	Valtreixal	Woulfe	Panasquiera			
Revenue	4,470	-	-	-	6,297	-	-	10,767
Production costs	3,265	-	-	-	4,549	-	-	7,814
Depreciation and amortization	1,476	12	-	-	784	-	-	2,272
<b>Earnings (loss) from mining operations</b>	(271)	(12)	-	-	964	-	-	681
<b>Expenses</b>								
General and administrative	1,043	169	4	(44)	609	201	-	1,982
Interest expense	111	38	-	29	89	350	-	617
Foreign exchange (gain) loss	41	-	-	63	(60)	189	-	233
<b>Income (loss) before income taxes</b>	(1,466)	(219)	(4)	(48)	326	(1,376)	-	(2,151)
<b>Capital expenditures</b>	164	-	43	365	798	-	-	1,370

### Geographic Information -

Country	Revenue		Non-current Assets	
	Three months ended		December 31 2018	September 30 2018
	2018	2017		
Portugal	8,272	6,297	25,433	24,471
Spain	8,140	4,470	46,842	44,934
South Korea	-	-	51,195	50,629
Canada	-	-	405	372
Australia	-	-	2,495	2,427
<b>Total</b>	<b>16,412</b>	<b>10,767</b>	<b>126,370</b>	<b>122,833</b>

## 14. Financial Instruments, and Financial Risk Management Objectives and Policies

### Fair Value Hierarchical Levels

Fair value hierarchical levels are directly determined by the amount of subjectivity associated with the valuation inputs of these assets and liabilities, and are as follows:

- Level 1 - Inputs are unadjusted, quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 - Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the asset or liability through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 - Inputs reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. Consideration is given to the risk inherent in the valuation technique and the risk inherent in the inputs to determining the estimate.

The carrying value of cash, trade receivables, restricted cash, and accounts payable and accrued liabilities approximates their fair value due to their short terms to maturity. The fair value of long-term debt is not materially different from the carrying value based on current market rates of interest, or interest rates set at relatively short time intervals.

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#### Financial Risk Management Objectives and Policies

Almonty's principal financial instruments comprise cash deposits and long-term debt.

The main purpose of these instruments is to provide cash flow funding for the operations of Almonty and its subsidiaries. Almonty has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from operations.

The main risks arising from Almonty's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

#### Interest rate risk

Almonty's exposure to the risk of changes in market interest rates relates to cash at banks and long-term debt with a floating interest rate. Of the long-term debt, \$30,908 is subject to floating interest rates and \$21,697 is subject to fixed interest rates. A portion of the floating rate debt totaling \$9,201 is subject to a fixed spread over the 6- and 12-month Euro Interbank Offered Rate ("Euribor") rates. A change of 100 basis points (1%) in the rates would result in a \$92 change in annual interest costs. The remaining floating rate debt of \$21,697 is based on a fixed spread over the 3-month Libor rate. A change of 100 basis point (1.0%) in the 3-month Libor rate would result in a \$217 change in annual interest costs.

#### Foreign currency risk

Almonty's wholly-owned subsidiaries, Daytal and BTW, operate in Spain and Portugal, respectively, both of which use Euros (€) as their functional currency. Their output is a commodity that is primarily priced in United States dollars (US\$) which is different than the functional currency of the Company and its subsidiaries, and the Company and its subsidiaries may also incur costs or obtain indebtedness in a currency that is different from their functional currency. Almonty's functional currency is the Canadian dollars (CAD\$) but it advances funds to subsidiaries in the functional currency of the subsidiary to which funds are advanced. As such, the Company's interim condensed consolidated balance sheet and profit or loss can be significantly affected by movements in various currencies (CAD\$, US\$, AUD\$ and €).

The Company's Canadian dollar functional currency businesses have the following financial instruments denominated in foreign currencies:

	Currency	Carrying Value (\$)
Cash and cash equivalents	US\$	1,163
Other assets	AUS\$	404
Accounts payable and accrued liabilities	US\$	1,303
Accounts payable and accrued liabilities	AUS\$	251
Accounts payable and accrued liabilities	KW	1,072
Long-term debt	US\$	24,670

A 5% change in the value of the CAD\$ relative to the above currencies would change net loss for the three months ended December 31, 2018 by approximately \$1,286.

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The Company's Euro functional currency businesses have the following financial instruments denominated in foreign currencies:

	Currency	Carrying Value (\$)
Trade receivables	US\$	3,146
Accounts payable and accrued liabilities	US\$	1,157

A 5% change in the value of the Euro relative to the above currencies would have change net loss for the three months ended December 31, 2018 by approximately \$99.

#### *Credit risk*

The Company deposits surplus cash and restricted cash with major banks of high quality credit standing, in interest bearing accounts that earn interest at floating rates. Trade receivables represents amounts receivable related to delivery of concentrate that have not been settled and are with the Company's customers, all of whom have good credit ratings and the Company has not experienced any credit issues with any of its customers. Other assets include a non-interest-bearing promissory note and deposits. The carrying value of the cash and cash equivalents, trade receivables, restricted cash, promissory note and deposits totaling \$12,837 represents Almonty's maximum exposure to credit risk.

#### *Liquidity risk*

The Company's objective is to use cash and cash equivalents, finance leases, and third party short and long-term loans (see Note 8 for debt maturities) and equity in order to maintain liquidity. Almonty's policy is to maximize liquidity in order to enable the continued development of the mines and operations of the plants and to enable the development of its projects. All financial liabilities with a contractual term of 12 months or less are classified as current. The Company is currently pursuing debt and equity financing opportunities to increase its liquidity.

## 15. Capital Management

The primary objective of Almonty's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. The Company manages its capital structure (composed of shareholders' equity and net debt) and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, Almonty may initiate dividend payments to shareholders, return capital to shareholders, repurchase issued shares or issue new shares. Almonty monitors capital using a gearing ratio, which is net debt, divided by equity plus net debt. Almonty's policy is to maintain the gearing ratio between 5% and 40%. Net debt for this purpose includes interest-bearing loans and borrowings and trade and other payables, less cash and cash equivalents and receivables from government tax authorities. Almonty is not exposed to any externally imposed capital requirements.

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	December 31 2018	September 30 2018
Accounts payable and accrued liabilities	15,897	25,673
Bank indebtedness	-	-
Long-term debt	52,605	50,331
Less: Cash and receivables	(13,260)	(13,355)
Net debt	<u>55,242</u>	<u>62,649</u>
Shareholders' equity	50,180	40,863
Equity and net debt	<u>105,422</u>	<u>103,512</u>
<b>Gearing ratio</b>	<b>52.4%</b>	<b>60.5%</b>

The gearing ratio exceeded the targeted range as at December 31, 2018 and September 30, 2018 due to the deterioration in the commodity prices from 2016 to mid-2017 having a negative impact on net income (loss). In 2018, the price environment improved and the company has generated income and raised additional equity, resulting in an improvement in the gearing ratio. The Company is working to improve its profitability, raise additional equity capital and /or reduce its outstanding debt levels in order to return the gearing ratio to targeted levels.

#### 16. Commitments and Contingent Liabilities

The Company's subsidiary, Daytal, owns the Los Santos Mine, near the town of Los Santos, Salamanca in western Spain. Daytal rents the land where the Los Santos Mine is located from local property owners and municipalities. The leases range from 10 to 25 years and have expiry dates in 2032. On all leases greater than 10 years, Daytal has the right to terminate the leases under certain circumstances without penalty. Annual lease commitments total approximately \$393 payable throughout the year on the anniversary dates of the individual leases.

The mining license for the Los Santos Mine was granted in September 2002 for a period of 30 years and is extendable for 90 years. Daytal pays minimal land taxes and there are no other royalty payments associated with the license. The Company files applications in the ordinary course to renew the permits associated with its mining license that it deems necessary and/or advisable for the continued operation of its business. Certain of the Company's permits to operate that are associated with the mining license are currently under application for renewal.

WCM and TM in Australia are each subject to an action brought by the Department of Environment and Science alleging breaches of the environmental authority with respect to the Wolfram Camp Mine. Each of WCM and TM deny liability and have defended the action to date. The maximum penalty for the alleged offences, if convicted, could be approximately \$7.0 million for each subsidiary although the Company believes, given the nature of the alleged offenses, that any penalties would be substantially less. Further, as WCM and TM have been placed into voluntary liquidation, the liquidators of each of WCM and TM will liaise with the Department to determine

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whether the Department will continue with any action. Even if any action was continued, despite the liquidation, the Company believes there is unlikely to be any cash outflows from the companies due to the liquidation.

In addition, on November 9, 2018, the Department of Environment and Science filed proceedings in the Planning and Environment Court seeking orders (among others) that WCM and TM provide the financial assurance in the amount of \$2.3 million related to its restoration and rehabilitation obligations associated with the Wolfram Camp Mine. WCM and TM have already posted approximately \$1.1 million in financial assurance. The proceedings relate to a further \$1.2 million representing further financial assurance for future restoration and rehabilitation. Prior to the voluntary liquidation, WCM and TM were ordered to deliver, within 10 business days, a bank guarantee for the balance amount of \$1.2 million, representing the potential future restoration and rehabilitation costs.

Almonty is not a party to either of the above actions and is not liable to pay any amount as a result of the above actions. Any liability for payment of money (assuming that liability exists) rests with either WCM or TM as applicable.

The Company's operations are subject to other claims and law suits from time to time, including any claims related to suppliers, employees or other parties. However, these are not expected to result in a material impact on the financial statements.

#### **17. Related Party Transactions**

For the three months ended December 31, 2018, the Company paid or accrued compensation to key management personnel, which includes the Company's Chief Executive Office, Chief Financial Officer and members of the Company's Board of Directors totaling \$189 (2017 - \$383). No amounts are owing to these individuals as of December 31, 2018.

During fiscal 2018, the Company incurred certain costs on behalf of the Company's Chief Executive Officer in the amount of \$283 which remains to be reimbursed to the Company as at December 31, 2018.

The Company has long-term debt owing to DRAG, a company that is an existing shareholder of Almonty, and whose CEO is a member of the Board of Directors of the Company. In addition to the transactions disclosed in notes 8(b) and 8(d), interest of \$100 was accrued on the DRAG loans during the three months ended December 31, 2018 (2017 - \$99). As of December 31, 2018, there is \$676 (September 30, 2018 - \$576) of unpaid interest on these loans included in accounts payable and accrued liabilities.