(“K92” or “the Company”)

FORM 51-102F1
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2016

Introduction

This Management’s Discussion and Analysis (“**MD&A**”) of K92 Mining Inc. including its wholly owned subsidiaries, K92 Holdings International Limited (incorporated in British Virgin Islands), K92 Mining (Australia) Pty Ltd. (incorporated in Australia), and K92 Mining Inc. (incorporated in Papua New Guinea) is the responsibility of management and covers the year ended August 31, 2016. The MD&A takes into account information available up to and including December 22, 2016 and should be read together with the annual audited consolidated financial statements for the year ended August 31, 2016, which are available on the SEDAR website at www.sedar.com.

Throughout this document the terms *we, us, our, the Company* and *K92* refer to K92 Mining Inc. All financial information in this document is prepared in accordance with International Financial Reporting Standards (“**IFRS**”) and is presented in United States dollars unless otherwise indicated.

Additional information related to the Company is available for view on SEDAR and on the Company’s website at www.k92mining.com.

This document contains forward-looking statements. Please refer to “Note Regarding Forward-Looking Statements.”

Description of Business

K92 Mining Inc. (formerly Otterburn Resources Corp.) (the "**Company**") was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on March 22, 2010. The Company's shares are listed on Tier 1 of the TSX Venture Exchange ("**TSX-V**") under the symbol KNT. The Company is currently engaged in the exploration and development of mineral deposits in Papua New Guinea, specifically the Kainantu Gold Mine that includes Irumafima and Kora deposits.

Performance Summary and Subsequent Events

During the quarter ended August 31, 2016, the Company:

- Completed a non-brokered private placement by issuing 12,500,000 units at a price of CAD$1.00 per unit for gross proceeds of CAD$12,500,000 ($9,624,387). Each unit consisted of one common share and one half of one share purchase warrant entitling the holder to purchase one common share at a price of CAD$1.50.

- Completed a non-brokered private placement by issuing 1,709,402 units at a price of CAD$1.17 per unit for gross proceeds of CAD$2,000,000 ($1,539,902). Each unit consisted of one common share and one share purchase warrant entitling the holder to purchase one common share at a price of CAD$1.75.

- Received CAD$3,893,580 ($2,997,864) from the exercise of 7,787,160 warrants.

- Signed an off-take agreement with Interalloys Trading Ltd. covering the first three years of concentrate production from the mine.

Subsequent to August 31, 2016, the Company:

- CRH Funding II Pte. Ltd. converted 5,000,000 preferred shares in to 9,503,662 common shares of the Company.

- The Company exercised its rights to trigger the early exercise clause on the 10,000,000 warrants exercisable at CAD$0.75 and received CAD$7,500,000 upon their exercise.

- Granted 3,265,000 stock options to employees, officers, directors, and an investor relations provider. The options are exercisable at CAD$1.00 and vest over a 12-month period expiring December 5, 2021.

- Began trading on the OTCQB Venture Market in the United States under the symbol "KNTNF".

- Commenced gold pre-production at Irumafinpa.

Change in year-end

In an effort to mirror the statutory audit cycle in Papua New Guinea as well as to mirror production company's reporting cycles, the Company changed its year end to December 31 beginning with December 31, 2016. As such the Company will have a four month period ended December 31, 2016 as its next reporting.

The length and ending date of the periods, including the comparative periods, of the interim and annual financial statements to be filed for the transition year and new financial year are:

Transition Year	Comparative Annual Financial Statements to Transition Year	New Financial Year	Comparative Annual Financial Statements to New Financial Year	Interim Periods for Transition Year	Comparative Interim Periods to Interim Periods in Transition Year	Interim Periods for New Financial Year	Comparative Interim Periods to Interim Periods in New Financial Year
4 months ended 12/31/2016	12 months ended 8/31/2016	12/31/2016	4 months ended 12/31/2016 and 12 months ended 8/31/2016	N/A	N/A	3 months ended 03/31/2017 6 months ended 06/30/2017 9 months ended 09/30/2017	3 months ended 02/29/2016 6 months ended 05/31/2016 9 months ended 08/31/2016

For additional information see Notice filed on SEDAR on October 14, 2016.

Outlook

K92 has completed the refurbishment, plans to restart the Irumafimpa mine project in Papua New Guinea and expects to ramp up gold pre-production in 2017.

In addition, the Company intends to complete the underground incline drive from Irumafimpa to Kora with testing to be undertaken along the way.

Mineral Property Summary

Kainantu Gold Mine – Irumafimpa Deposit

The Company holds the mining rights to Mining Lease 150 ("**ML 150**") until June 13, 2024. See technical report filed on www.sedar.com, and our website, "Technical report (NI 43-101)" filed April 19, 2016.

Gold pre-production has commenced from K92 Mining Inc.'s Irumafimpa deposit.

K92 purchased the Kainantu gold mine from Barrick Gold Corp. in 2015. The initial resource estimate for the Kora and Irumafimpa deposits, situated within the Company's ML150, is 1.84 million inferred ounces at 11.6 grams per tonne gold equivalent and 240,000 indicated ounces at 13.3 grams per tonne gold equivalent (based on the independent technical report, "Resource Estimate and Summary of Mining Facilities, Kainantu Project, Papua New Guinea," prepared by Nolidan Mineral Consultants, with Anthony Woodward, BSc (honours), MSc, MAIG, as author, and dated April 15, 2016, a copy of which is available for review and has been filed on SEDAR under the Company's profile and contains a full description of all underlying assumptions). This mineral resource estimate is based on 78,935 metres of drilling from 767 holes and 18,312 metres of assayed intervals across all lodes.

K92 Mining Inc. has provided the initial results from the continuing grade control drilling program at its Kainantu gold mine that is currently in the start-up pre-production phase. The results have significantly increased both the predicted grade and contained gold ounces in the first two planned pre-production stopes.

Highlights include:

- Grade increase from 5.82 grams per tonne Au in the original Australian Mine and Development Pty. Ltd. ("**AMDAD**") stope model to 9.21 g/t Au;
- Combined ounces in the two stope designs increase from 1,550 ounces Au to 2,390 ounces Au;
- Intercepts include 102 g/t Au over 1.1 metres and 9.21 g/t Au over 0.5 m in GCDD 002 and 30.19 g/t Au over 2.5 m in GCDD 001.

In September, 2016, K92 Mining Inc. commenced a campaign of close-spaced underground diamond drilling as part of a comprehensive grade control strategy. This grade control drilling is designed to bring a significantly higher degree of confidence to the pre-production planning and scheduling by drilling out all scheduled pre-production areas underground ahead of actual development on a closed space pattern of approximately 15 metres by 15 metres. This compares with resource drilling which has been carried out at a 50-metre-by-50-metre or greater pattern.

The initial grade control drilling intercepts included high-grade gold intercepts including 102.00 grams per tonne gold over 1.1 metres and 9.21 g/t gold over 0.5 metre in diamond drill hole GCDD 002 and 30.19 g/t gold over 2.5 metres in diamond drill hole GCDD001.

The results from this drilling will be used to finalize the various stope and ore development designs and provide updated information on projected pre-production from the areas in terms of tonnage, grade and contained ounces. The attached table provides a comparison between the original AMDAD stope design and the new design based on grade control data, using both cut and uncut data. The stopes are situated at the lowest point in the underground which K92 has planned to mine and are also at the southern edge of the known resource that has only been drilled on a 100-metre-by-100-metre pattern.

The updated stope designs based on the grade control drilling indicate the projected grade of the combined stopes has increased from 5.82 g/t Au in the original AMDAD stope model to 9.21 g/t (applying a top cut of 70 g/t Au) in the new stope model using the grade control results. The combined ounces in the two stopes have increased from 1,550 ounces Au to 2,390 ounces Au (applying the top cut of 70 g/t Au).

COMPARISON OF GRADE CONTROL STOPE DESIGN VERSUS AMDAD STOPE DESIGN -- TONNAGE, GRADE AND CONTAINED OUNCES

Grade control model

Elevation	Volume	Tonnes	Au cut 70	Au oz	Au uncut	Au oz
1205 -- greater than 1220	1,358	3,937	4.17	528	4.95	627
1220 -- greater than 1235	1,427	4,138	14.01	1,864	16.89	2,247
Total	2,785	8,075	9.21	2,392	11.07	2,874

COMPARISON OF GRADE CONTROL STOPE DESIGN VERSUS AMDAD STOPE DESIGN -- TONNAGE, GRADE AND CONTAINED OUNCES

AMDAD stope design model

Elevation	Volume	Tonnes	Au AMDAD	Au oz
1205 -- greater than 1220	1,625	4,713	6.05	917
1220 -- greater than 1235	1,234	3,580	5.53	637
Total	2,859	8,293	5.82	1,553

The table provides a summary of the results from the first six diamond grade control holes which have been drilled into the first two stope areas we plan to mine underground. The "Kainantu gold mine -- significant intercepts from Irumafimpa grade control" table provides a summary of the significant intercepts from the holes.

Recently, K92 Mining announced that initial gold pre-production commenced at the Irumafimpa deposit and also announced results from a preliminary economic assessment (PEA) completed at the Kora deposit, which the Company is targeting to bring on-line into commercial production in first quarter 2018.

Andrew Kohler, BSc, P. Geo, a qualified person under the meaning of Canadian National Instrument 43-101, has reviewed and is responsible for the technical content of this MD&A.

Kainantu Gold Mine – Kora Deposit

The Kora deposit has a current inferred resource of 4.42 million tonnes at a grade of 7.1 g/t gold, 34.6 g/t silver and 2.2% copper and is open for expansion and strongly mineralized at the extent of drilling.

The Company is planning to undertake a development of approximately 1,000 metres to access the known Kora deposit from the current underground workings. In addition to providing access to the known deposit for more detailed evaluation and potential exploitation, the access drive will allow the Company to undertake an extensive diamond drilling program in the previously untested area between the Kora and Irumafimpa deposits.

Selected Annual Information

The following table provides a brief summary of the Company's financial operations. For more detailed information, refer to the Financial Statements.

	August 31, 2016	August 31, 2015	August 31, 2014
Net loss	$ 15,372,429	$ 3,450,234	$ 558,764
Basic and diluted loss per share	0.26	0.07	0.12
Total assets	21,883,284	4,645,432	1,675,058
Working capital (deficiency)	2,308,701	(3,217,152)	1,600,014
Total long-term liabilities	7,857,974	1,852,183	-
Cash dividends	-	-	-

Results of Operations for the year ended August 31, 2016

The annual audited consolidated financial statements reflect the financial condition of the Company's business for the year ended August 31, 2016.

During the year ended August 31, 2016, the Company incurred a loss of $15,372,429 as compared to a loss of $3,450,234 for the year ended August 31, 2015. Significant items making up the loss as follows:

Accretion expense of $145,118 (2015 - $Nil). This is the cost related to the reclamation and closure cost obligations. The Company has estimated future reclamation costs at the end of the mine life and recorded the accretive portion of the expense in the current period.

An increase in amortization expense of $77,596 to $151,191 (2015 - $73,595). This is due to amortization recorded on the assets purchased as part of the acquisition of Barrick (Kainantu) Limited.

An increase in consulting and administrative expense of $1,511,418 to $2,983,309 (2015 - $1,471,891). The increase is due to increased activity and includes management and director fees, professional fees, filing fees, and office and administrative fees. This increase reflects the increased level of activity at the Company.

Finance fee of $367,542 (2015 - $Nil). This relates to the CRH Financing and represents CRH's transaction costs paid by the Company of $137,542 and a $230,000 penalty due to a delay in meeting certain milestones contained in the agreement with CRH. Those milestones have now been met.

An increase of general and indirect mining administrative expense of $4,058,098 to $5,304,274 (2015 - $1,246,176). This includes all site costs including management, administration, security, community relations, technical services and human resources. This increase reflects the increased activity at the mine site.

Investor relations of $1,138,158 (2015 - $Nil). This is primarily related to the Company going public in May 2016 and includes investor relations, shareholder communication, and business development.

Gain on settlement of debt of $406,880 (2015 - $Nil). This is the gain on negotiated settlements of accounts payable and accrued liabilities.

Listing expense of $1,608,070 (2015 - $Nil). This relates to the reverse takeover of Otterburn Resources Corp. Details of how the listing expense was calculated can be seen in Note 4 of the annual audited consolidated financial statements.

Fair value loss on gold purchase agreement of $4,450,575 (2015 – $Nil). This relates in the fair value adjustment to the CRH gold prepayment due to the changes in assumptions in the estimate of the fair value of the CRH gold prepayment from the inception of the loan to the end of the year. See Note 13 to the annual audited consolidated financial statements for details.

Summary of Quarterly Results

The following table summarizes the quarterly results for each of the three-month periods ended:

	August 31, 2016	May 31, 2016	February 29, 2016	November 30, 2015
Total assets	$ 21,883,284	$ 8,581,343	$ 5,032,934	$ 4,452,318
Working capital (deficiency)	2,308,701	(1,056,120)	(4,118,315)	(4,158,525)
Shareholders equity (deficiency)	6,745,341	(594,136)	(3,235,342)	(2,185,249)
Net income (loss)	(9,284,653)	(4,012,996)	(1,050,093)	(1,024,687)
Net income (loss) per share	(0.16)	(0.08)	(0.02)	(0.02)
	August 31, 2015	May 31, 2015	February 28, 2015	November 30, 2014
Total assets	$ 4,645,432	$ 5,239,397	$ 2,069,870	$ 2,076,694
Working capital (deficiency)	(3,217,152)	(2,380,719)	742,112	1,565,768
Shareholders equity (deficiency)	(1,160,562)	(406,816)	742,112	1,565,768
Net income (loss)	(753,746)	(1,148,928)	(823,656)	(723,904)
Net income (loss) per share	(0.02)	(0.02)	(0.02)	(0.02)

The increase in net loss for the quarter ended August 31, 2016 primarily relates to the fair value adjustment on the CRH financing liability and the increase in net loss for the quarter ended May 31, 2016 primarily relates to the increased activity In Papua New Guinea after completing the CRH Financing.

Results of Operations for the three-month period ended August 31, 2016

The annual audited consolidated financial statements reflect the financial condition of the Company's business for the quarter ended August 31, 2016.

During the quarter ended August 31, 2016, the Company incurred a loss of $9,284,653 as compared to a loss of $753,746 for the quarter ended August 31, 2015. Significant items making up the loss as follows:

An increase of general and indirect mining administrative expense of $2,320,402 to $2,809,663 (2015 - $489,261). This includes all site costs including management, administration, security, community relations, technical services and human resources. This increase reflects the increased activity at the mine site.

An increase of consulting and administrative of $1,020,184 to $1,611,095 (2015 –$590,911). This is primarily related to the increased activity and being a public company. This increase reflects the increased level of activity at the Company.

Fair value loss on gold purchase agreement of $4,450,575 (2015 – $Nil). This relates in the fair value adjustment to the CRH gold prepayment being the difference between the price CRH paid and the estimated present value of the gold to be repaid.

Liquidity

K92's mineral exploration and development activities currently do not provide a source of income and we therefore have a history of losses, working capital deficiencies and an accumulated deficit. However, given the nature of our business, the results of operations as reflected in the net losses and losses per share do not provide a complete interpretation of our valuation.

As at August 31, 2016, the Company had a working capital of $2,308,701. This balance included a cash balance of $7,669,314 (August 31, 2015 - $162,849) to settle current liabilities of $7,279,969 (August 31, 2015 - $3,953,811).

Operating Activities: The Company does not generate cash from operating activities. Net cash used by the Company for operating activities, general and indirect mining administration expense, for the year ended August 31, 2016 was $12,282,588 compared to $1,856,724 for the year ended August 31, 2015.

Investing Activities: During the year ended August 31, 2016, the Company acquired $1,472,329 of cash through the reverse takeover of Otterburn Resources Corp. and purchased $6,691,382 in property, plant and equipment.

Financing Activities: During the year ended August 31, 2016 the Company received $3,964,129 from Otterburn Resources Corp. prior to the completion of the reverse takeover, other loans of $50,922, and repaid loans of $387,674. The Company raised $11,164,289 through the issuance of capital stock and $2,677,419 through the issuance of preferred shares, $4,813,974 from the CRH financing, $2,997,864 from the exercise of warrants and paid $272,817 in share issuance costs.

The annual audited consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The Company's continuing operations rely on the ability of the Company to continue to raise capital. There can be no assurance that adequate additional financing will be available at terms acceptable to the Company or at all which could have material adverse impact on the Company's ability to continue as a going concern.

Related Party Transactions

Key management compensation

During the year ended August 31, 2016, the Company paid or accrued:

a) Consulting fees of $423,000, which includes a one-time bonus payment (2015 - $150,000) to a director and CEO of the Company, $141,800, which includes a one-time bonus payment (2015 – $95,321) to the CFO of the Company, $253,300 (2015 - $Nil) to the COO of the Company, $30,000 (2015 - $120,000) to the former COO of the Company, $250,000 which includes a one-time bonus (2015 - $Nil) to the current Chairman of the Board, $Nil (2015 - $125,000) to the former Chairman of the Board, and $366,000, which includes a one-time bonus (2015 – $96,000) to the president of the Company. The Company also paid professional fees of $10,774 (2015 - $Nil) to a Company related to the CFO.

b) General and administrative fees of $Nil (2015 - $15,000), professional fees of $Nil (2015 - $43,001) and due diligence fees of $Nil (2015 - $29,236) to two companies controlled by the former Chairman of the Board.

c) Share-based payments of $315,588 (2015 - $Nil) to the officers and directors of the Company was recorded.

d) Borrowed $18,645 (August 31, 2015 - $Nil) from a director of the Company that bears no interest and is due on demand. This loan was repaid before year-end.

   Included in accounts payable and accrued liabilities is $111,853 (August 31, 2015 - $470,816) due to directors, officers, and companies controlled by directors and officers of the Company that is non-interest bearing and due on demand.

Outstanding Share Data

As at the date of this report the Company had 119,426,527 common shares and 5,000,000 preferred shares issued and outstanding.

The following incentive stock options were outstanding at the date of this report:

Number	Exercise price (CAD)	Expiry date
7,185,000	$ 0.45	May 20, 2021
100,000	1.93	July 29, 2021
3,265,000	1.00	December 5, 2021

The following incentive warrants were outstanding at the date of this report:

Number	Exercise price (CAD)	Expiry date
12,707,909	$ 0.50	November 20, 2017
7,078,255	1.50	July 20, 2017
1,829,061	1.75	July 25, 2017

Contractual Obligations

As at December 15, 2016 the Company had the following contractual obligation:

Rental Commitments

The Company has commitments related to the minimum rental and operating expenses payments for the Company's office space in downtown Vancouver. The lease was effective July 1, 2016 and concludes on March 29, 2018. These commitments in each of the next two years to the conclusion of the lease period are approximately as follows:

Year incurred	Amount
2016	$ 27,091
2017	113,784
2018	28,446
Total commitments	$ 169,321

Off-Balance Sheet Arrangements

At August 31, 2016, the Company had no material off-balance sheet arrangements such as guarantee contracts, contingent interest in assets transferred to an entity, derivative instruments obligations or any obligations that trigger financing, liquidity, market or credit risk to the Company.

Proposed Transactions

Except as elsewhere disclosed in this document, there are no other proposed transactions under consideration.

Capital Resources

The Company has no commitments for capital expenditures at the date of this report.

The Company will continue to seek capital. In the past the Company has raised capital in public markets by issuing common shares pursuant to private placements, through the sale of gold prepayments, through the issuance of preferred shares, and through loans payable. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities. The Company does not presently utilize any quantitative measures to monitor its capital and is not subject to externally imposed capital requirements.

Risk Factors

K92 is engaged in mineral exploration and development activities which, by their nature, are speculative due to the high risk nature of the business and the present stage of the development of the Project. Any investment in the common shares of K92 should be considered a highly speculative investment due to the nature of the Company's business. Such risk factors could materially affect K92's future financial results and could cause actual results and events to differ materially from those described in forward looking statements and forward looking information relating to K92 or the business, property or financial results, any of which could cause investors to lose part or all of their investment in K92. For a detailed discussion of the risk factors associated with the Company please consult the risk factors section of the Company's most recent Management Information Circular filed on SEDAR at www.sedar.com.

Changes in Accounting Policies including Initial Adoption

There has been no change in the Company's significant accounting policies from those disclosed in Note 3 of the Company's annual audited consolidated financial statements for the twelve months ended August 31, 2016.

During the quarter ended May 31, 2016, the Company accounted for the cash received as per the Gold Prepayment Agreement as deferred revenue.

During the quarter ended August 31, 2016, the Company determined that upon signing the agreement on February 4, 2016, the fair value of the financing should be recorded with the offsetting entry setup as a deferred loss. On each reporting date, the Company reviews the fair value of the CRH financing and any changes are offset against the statement of operations.

The Company nets the deferred loss against the liability and concluded that the balance at May 31, 2016 was not materially different under the different policy.

Critical Accounting Policies and Estimates

The preparation of the annual audited consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported expenses during the period. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation and judgement uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to:

Landowners' compensation

The Company has obligations to compensate landowners annually who are affected by the operations of the Kainantu mine. These compensations are governed by the Papua New Guinean Mining Act 1992 and land and environment compensation agreement ("**CA**") for ML 150 that the prior owner of the Kainantu mine entered into with the Billmoia Landowners Association Incorporation ("**BLA**") and certain landowners / clans listed in the agreement. The actual recipients of the compensation determined under the CA and landowners' share of sales royalty could not be paid as required under the CA until the legitimate landowners were identified by the Papua New Guinean Land Titles Commission ("**LTC**") and so compensation payments were accrued.

The estimation of landowners' compensation in Kainantu requires significant judgmental assumptions regarding compensation rates and land area affected by the mining activities. The principal factors that cause expected cash flows to change are: changes in the land area lost due to mining or other activities; changes in compensation rates; future claims for additional compensations and in particular individual one off compensations that are found to be legitimate and requiring additional payments.

The amount of landowners' compensation provision for Kainantu mine as of August 31, 2016 was $540,947 (1.75 million Papua New Guinea Kina), which reflects expected cost.

Exploration and evaluation

The net carrying value of each mineral property is reviewed regularly for conditions that suggest impairment. This review requires significant judgment. Factors considered in the assessment of asset impairment include, but are not limited to, whether there has been a significant adverse change in the legal, regulatory, accessibility, title, environmental or political factors that could affect the property's value; whether there has been an accumulation of costs significantly in excess of the amounts originally expected for the property's acquisition, development or cost of holding; and whether exploration activities produced results that are not promising such that no more work is being planned in the foreseeable future.

Achievement of Production Phase

Once a mine reaches the operating levels intended by management, depreciation of capitalized costs begins. Significant judgment is required to determine when certain assets of the Company's reach this level. Management considers several factors including, completion of a reasonable period of commissioning, consistent operating results are being achieved at a pre-determined level of design capacity.

Going concern

The assessment of the Company's ability to continue as a going concern involves critical judgement based on historical experience. Significant judgements are used in the Company's assessment of its ability to continue as a going concern which is described in Note 1 of the annual audited consolidated financial statements.

Acquisition accounting

The Company has accounted for the Acquisition of Barrick (Kainantu) Limited as an asset acquisition. Significant judgment and estimates were required to determine that the application of this accounting treatment was appropriate for the transaction. These included, among others, the determination that Barrick (Kainantu) Limited was not considered a business under IFRS 3: Business combinations, the basis for the calculation of the fair value of the consideration transferred and the estimate of the fair value of the net assets acquired.

Rehabilitation and restoration provision

The Company has obligations for the future restoration of its mining tenements. In most instances, removal of assets and restoration of surrounding area occurs many years into the future. This requires judgmental assumptions regarding removal date, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining removal cost, and asset specific discount rates to determine the present value of these cash flows.

Income tax

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

Gold prepayment agreement

Judgment is required in assessing the appropriate accounting treatment of the gold prepayment agreement on the closing date and in future periods. We consider the specific terms of the agreement to determine whether we have disposed of an interest in the mineral property. This assessment considers what the counterparty is entitled to and the associated risks and rewards attributable to them over the life of the operation, including the contractual terms related to the total production over the life of the arrangement as compared to the expected production over the life of the mine, the percentage being sold, the percentage of payable metals produced, and any guarantee relating to the upfront payment if production ceases.

For the gold prepayment agreement entered into during the year, there is a guarantee associated with the upfront payment as we are required to make good faith commercial efforts to maximize production of gold from the mineral property. Additionally, the counterparty has the option to receive payment in cash rather than refined gold. Accordingly, we consider this arrangement a derivative liability.

The valuation of the derivative in this arrangement is an area of estimation and is determined using discounted cash flow models. These models require a variety of inputs, including, but not limited to, contractual terms, market prices, forward curve prices, mine plans and discount rates. Changes in these assumptions could affect the carrying value of derivative assets or liabilities and the amount of gains or losses recognized in other operation income (expense).

Estimated useful lives

The useful life of some of the Company's items of property, plant and equipment is estimated based on the period over which the asset is expected to be available for use. Such estimation is based on a collective assessment of practices of similar business, internal technical evaluation and experience with similar assets. The estimated useful life of each asset is reviewed periodically and updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the asset. It is possible however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of property, plant and equipment would increase the recorded operating expenses and decrease long-term assets.

Contingent Liability

The Company has determined not to record a liability related to the acquisition of Barrick (Kainantu) Limited (Note 5) as at this time, the Company has not determined the existence of 1,000,000 gold equivalent ounces classified as measured, indicated, probable ore resource, or a proven ore equivalent ounce of gold.

Financial Instruments and Risk Management

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quotes prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of cash and cash equivalents and receivables approximate their carrying value due to the short-term maturity. Fair value of accounts payable and accrued liabilities and loans payable may be less than the carrying value for some of these instruments given going concern uncertainties described in Note 1. Fair value of the CRH financing approximate their carrying value at August 31, 2016.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial risk factors

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and cash equivalents with high-credit quality financial institutions.

Liquidity risk

The Company has in place a planning and budgeting process to manage its liquidity risk and ensure it has sufficient liquidity to meet liabilities when due. As at August 31, 2016, the Company had a cash and cash equivalents balance of $7,669,314 (August 31, 2015 - $162,849) to settle current liabilities of $7,279,969 (August 31, 2015 - $3,953,811). All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company requires additional funds to settle the existing liabilities, fund exploration and development expenditures, and maintain general and administrative expenses over the coming year.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash and cash equivalents balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at August 31, 2016, the Company did not have any investments in investment-grade short-term deposit certificates. The Company's loans payable are not exposed to interest rate risk given interest rates on loans are fixed.

b) Foreign currency risk

The Company's foreign exchange risk arises from transactions denominated in other currencies. Through this, the Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, receivables, prepayments, accounts payable and accrued liabilities and reclamation and closure costs obligations that are denominated in Australian Dollars, Papua New Guinea Kina, United States Dollar and Canadian Dollars and the CRH financing which can be elected to be repaid in United States Dollars as determined by CRH. The Company does not use derivative instruments to reduce its exposure to foreign currency risk nor has it entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations.

Note Regarding Forward-Looking Statements

Except for historical information, this MD&A may contain forward-looking statements. These statements involve known and unknown risks, uncertainties, and other factors that may cause the Company's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievement expressed or implied by these forward-looking statements.

The factors that could cause actual results to differ materially include, but are not limited to, the following:

General economic conditions; changes in financial markets; the impact of exchange rates; political conditions and developments in countries in which the Company operates; changes in the supply, demand and pricing of the metal commodities which the Company hopes to find and successfully mine; changes in regulatory requirements impacting the Company's operations; the sufficiency of current working capital and the estimated cost and availability of funding for the continued exploration and development of the Company's exploration properties.

This list is not exhaustive and these and other factors should be considered carefully, and readers should not place undue reliance on the Company's forward-looking statements. As a result of the foregoing and other factors, no assurance can be given as to any such future results, levels of activity or achievements and neither the Company nor any other person assumes responsibility for the accuracy and completeness of these forward-looking statements.

This MD&A contains certain forward-looking statements inclusive of, but not limited to, timing of the mine development, mill construction and ore production. Although forward-looking statements and information contained in this MD&A are based on the beliefs of K92 management, which we consider to be reasonable, as well as assumptions made by and information currently available to K92 management, there is no assurance that the forward-looking statement or information will prove to be accurate. The assumptions made include assumptions about K92's ability to move forward with the arrangements as set out in the Definitive Agreement. The forward-looking statements and information contained in this MD&A are subject to current risks, uncertainties and assumptions related to certain factors including, without limitations, obtaining all necessary approvals, feasibility of mine and plant development, exploration and development risks, expenditure and financing requirements, title matters, operating hazards, metal prices, political and economic factors, competitive factors, general economic conditions, relationships with vendors and strategic partners, governmental regulation and supervision, seasonality, technological change, industry practices, and one-time events as well as risks, uncertainties and other factors discussed in our quarterly and annual and interim management's discussion and analysis. Should any one or more of these risks or uncertainties materialize or change, or should any underlying assumptions prove incorrect, actual results and forward-looking statements and information may vary materially from those described herein. Accordingly, readers should not place undue reliance on forward-looking statements and information contained in this MD&A. We undertake no obligation to update forward-looking statements or information except as required by law.

Cautionary Note to Investors Concerning Estimates of Measured and Indicated Resources. This discussion Uses the terms "measured resources" and "indicated resources". The Company advises investors that while those terms are recognized and required by Canadian regulations, the U.S. Securities and Exchange Commission does not recognize them. Investors are cautioned not to assume that any part or all of mineral deposits in these categories will ever be converted into reserves."