Otterburn Resources Corp.

(An Exploration Stage Company)

Condensed Interim Financial Statements

Three and Six Months Ended February 29, 2016 and February 28, 2015

Unaudited – Presented in Canadian Dollars

Otterburn Resources Corp.
(An Exploration Stage Company)
Statements of Financial Position
Unaudited – Prepared by Management
In Canadian Dollars

ASSETS	**Note**		**February 29, 2016**		**August 31, 2015**
Current					
Cash		$	159,980	$	3,035
Accounts receivable			9,667		6,913
Loans receivable	6		2,232,532		1,433,840
Prepaid expenses			540		1,092
			2,402,719		**1,444,880**
Deferred Financing Costs	6		85,674		85,674
Mineral Property	4		15,000		15,000
		$	**2,503,393**	**$**	**1,545,554**
LIABILITIES					
Current					
Accounts payable and accrued liabilities	8	$	200,337	$	183,484
Loans payable	5, 8		80,986		80,687
Share subscriptions received	6		2,509,857		1,512,840
		$	**2,791,180**	**$**	**1,777,011**
SHAREHOLDERS' EQUITY (DEFICIT)					
Share Capital	6		872,862		872,862
Contributed Surplus	6		146,081		146,081
Deficit			(1,306,730)		(1,250,400)
			(287,787)		**(231,457)**
		$	**2,503,393**	**$**	**1,545,554**

Nature of Operations and Going Concern *(Note 1)*
Subsequent Events *(Note 12)*

Approved on behalf of the Board of Directors:

" Darryl Cardey" Director

" Darren Devine" Director

- See Accompanying Notes to Condensed Interim Financial Statements -

Otterburn Resources Corp.

(An Exploration Stage Company)

Interim Statements of Loss and Comprehensive Loss

Unaudited – Prepared by Management
In Canadian Dollars

	Three Months Ended February 29, 2016	Three Months Ended February 28, 2015	Six Months Ended February 29, 2016	Six Months Ended February 28, 2015
Expenses				
Audit and accounting	$ 5,500	$ 10,425	$ 22,333	$ 23,425
Filing and transfer agent fees	7,704	8,025	9,217	14,171
Insurance	1,668	2,095	3,347	3,568
Interest on loans (Note 5)	1,330	1,351	2,799	2,596
Legal fees (recovery)	-	-	374	336
Office and administration	4,410	1,387	8,510	5,221
Rent	6,750	1,000	9,750	4,000
Share-based payment (Note 6a))	-	80,000	-	80,000
Total Expenses	27,362	104,283	56,330	133,317
Interest income	-	(1,675)	-	(1,675)
Comprehensive loss for the period	$ 27,362	$ 102,608	$ 56,330	$ 131,642
Loss per share – basic and diluted	$ 0.00	$ 0.01	$ 0.00	$ 0.01
Weighted average number of common shares outstanding	13,550,682	13,347,334	13,550,682	13,282,980

– See Accompanying Notes to Condensed Interim Financial Statements –

Otterburn Resources Corp.

(An Exploration Stage Company)

Interim Statements of Cash Flows

For the Six Months Ended February 29, 2016 and February 28, 2015

Unaudited – Prepared by Management
In Canadian Dollars

Cash Provided By (Used In):	**2016**	**2015**
Operations:		
Loss for the period	$ (56,330)	$ (131,642)
Item not involving cash:		
Interest on loans	2,799	2,596
Share-based payment	-	80,000
Change in non-cash working capital:		
Accounts receivable	(2,754)	(2,290)
Prepaid expenses	552	-
Accounts payable and accrued liabilities	16,853	6,341
	(38,880)	**(44,995)**
Investing:		
Loans receivable (Note 6)	**(503,606)**	**-**
Financing:		
Loans payable (Note 5)	(2,500)	25,000
Subscription receipts received (Note 6)	701,931	-
	699,431	**25,000**
Net increase (decrease) in cash	156,945	(19,995)
Cash – beginning of period	3,035	21,651
Cash – end of period	$ **159,980**	**$ 1,656**

Supplementary information (non-cash items):		
Share subscriptions received which were paid directly to K92 Holdings (Note 6)	$ 244,500	$ -
Supplementary information (other items)		
Interests paid	$ -	$ -
Interests received	$ -	$ -
Income taxes paid	$ -	$ -

See Accompanying Notes to Condensed Interim Financial Statements -

Otterburn Resources Corp.

(An Exploration Stage Company)

Interim Statements of Changes in Shareholders' Equity (Deficit)

Unaudited – Prepared by Management
In Canadian Dollars

	Share Capital						
	Shares	Amount $	Share Option Reserves $	Warrant And Other Reserves $	Contributed Surplus $	Deficit $	Total $
Balance, August 31, 2014	**13,219,334**	**707,188**	**21,566**	**124,515**	**-**	**(932,464)**	**(79,195)**
Shares issued to third party lender (Note 6)	160,000	80,000	-	-	-	-	80,000
Loss for the period	-	-	-	-	-	(131,642)	(131,642)
Balance, February 28, 2015	**13,379,334**	**787,188**	**21,566**	**124,515**	**-**	**(1,064,106)**	**(130,837)**
Shares issued as finders fees (Note 6)	171,348	85,674	-	-	-	-	85,674
Expired warrants and options	-	-	(21,566)	(124,515)	146,081	-	-
Loss for the period	-	-	-	-	-	(186,294)	(186,294)
Balance, August 31, 2015	**13,550,682**	**872,862**	**-**	**-**	**146,081**	**(1,250,400)**	**(231,457)**
Loss for the period	-	-	-	-	-	(56,330)	(56,330)
Balance, February 29, 2016	**13,550,682**	**872,862**	**-**	**-**	**146,081**	**(1,306,730)**	**(287,787)**

– See Accompanying Notes to Condensed Interim Financial Statements –

1. NATURE OF OPERATIONS AND GOING CONCERN

Otterburn Resources Corp. ("the Company" or "Otterburn") was incorporated pursuant to the provisions of the *Business Corporations Act* (British Columbia) on March 22, 2010. The Company is in the business of exploration, development and exploitation of mineral resources in Canada.

The Company's registered address is: Suite 800 – 789 West Pender Street, Vancouver, British Columbia, V6C 1H2. The Company's common shares are publicly listed on the Toronto Stock Exchange's Venture Exchange.

These condensed interim financial statements were approved by the Board of Directors on April 29, 2016.

These condensed interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year.

At February 29, 2016, the Company had not achieved profitable operations and had an accumulated deficit of $1,306,730 since inception. In addition, proceeds received from share subscriptions were loaned to K92 Holdings International Limited ("K92 Holdings") during and subsequent to the current reporting period (Note 6 and 12). As a result, the Company currently has insufficient cash to meet its administrative expenses and to satisfy accounts payable and loans payable (Note 5). Furthermore, the Company has insufficient cash to fund $85,678 of exploration expenditures by March 31, 2016 to maintain its option to the Adams Plateau Property (Note 4). These conditions are material uncertainties which cast significant doubt about the Company's ability to continue as a going concern. The Company expects to complete the proposed acquisition of K92 Holdings in May 2016 (Note 10).

The Company's ability to continue as a going concern is dependent its ability to obtain the necessary financing to develop its mineral property interest and to meet its corporate overhead needs, keep its property in good standing and discharge its liabilities as they come due. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Should the Company not be able to continue as a going concern, realization values may be substantially different from carrying values as recorded in these condensed interim financial statements. These condensed interim financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. BASIS OF PRESENTATION

These condensed interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's audited financial statements for year ended August 31, 2015.

Results for the six-month period ended February 29, 2016, are not necessarily indicative of results that may be expected for the full year ending August 31, 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), applicable to preparation of the interim financial statements, including IAS 34, *Interim Financial Reporting*. Accordingly, these condensed interim financial statements do not include all of the information and footnotes required by IFRS for complete financial statements for year-end reporting purposes.

These condensed interim financial statements should be read together with the audited financial statements for the year ended August 31, 2015 which in Note 3 detail all significant accounting policies adopted by the Company.

The Company's accounting policies have been applied consistently to all periods presented in these condensed interim financial statements.

Critical Accounting Judgments and Estimates

The preparation of these condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. The most significant accounts that require estimates as the basis for determining the stated amounts include: impairment of mineral property; inputs used in the valuation of share-based payments; and provision for deferred income tax, including the effects of flow-through shares.

3. SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Critical Accounting Judgments and Estimates – *Continued*

Significant estimates that have the most significant effect on the amounts recognized in the condensed interim financial statements are as follows:

Recoverability of capitalized mineral property costs

The Company capitalizes mining property acquisition costs that are to be amortized when production is attained or the balance thereof written off should the property be disproven through exploration or abandoned. The carrying value of the Company's capitalized mineral property costs is reviewed by management at least annually, or whenever events or circumstances indicate that its carrying value may not be recovered. If impairment is determined to exist, a formal estimate of the recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is measured at the higher of fair value less costs of disposal and value in use.

Recoverability of loans receivable

Critical accounting judgment includes the assessment of the recoverability of loans receivable from K92 Holdings. The Company is actively involved in K92 Holdings funding alternatives and both parties remain committed to completing the Proposed Transaction (Note 10). Based on discussions with K92 Holdings management and possible funders, the Company believes a funding arrangement will be completed and the loan receivable is recoverable. If the Proposed Transaction does not close, the loan receivable will be assigned pro-rata to the subscription receipt holders, and the company shall have no further liability to the holders.

Going concern

The assessment of the Company's ability to continue as a going concern involves critical judgement based on historical experience and other factors including the pending closing of the Proposed Transaction (Note 10). Significant judgments are used in the Company's assessment of its ability to continue as a going concern which is described in note 1.

Recent Accounting Pronouncements

Recent Accounting Pronouncements not yet applied:

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or IFRIC that are mandatory for future accounting periods. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

In Canadian Dollars

3. SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Recent Accounting Pronouncements - *Continued*

IFRS 9 – Financial Instruments: Classification and Measurement - IFRS 9 addresses classification and measurement of financial assets and liabilities, recognizing impairment of financial assets, and hedge accounting. Under this standard, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. The accounting model for financial liabilities is largely unchanged from IAS 39 except for the presentation of the impact of own credit risk on financial liabilities designated at fair value through profit or loss. The new general hedge accounting principles under IFRS 9 are aimed to align 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 is expected to 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. IFRS 9 is mandatorily effective for annual periods beginning on or after January 1, 2018. The Company is currently assessing the impact of the standard on the Company's financial statements.

4. MINERAL PROPERTY

The Company is actively investigating, evaluating and conducting exploration activities in Canada.

a) Acquisition Costs

Details of capitalized acquisition costs as at February 29, 2016 and August 31, 2015 are as follows:

Adams Plateau Property, BC, Canada		February 29, 2016		August 31, 2015
Acquisition costs	$	15,000	$	15,000

The Company did not incur any new acquisition costs during the six months ended February 29, 2016 and February 28, 2015.

b) Exploration and Evaluation Costs

Details of activities for the six months ended February 29, 2016 and February 28, 2015 are as follows:

Adams Plateau Property, BC, Canada		2016		2015
Cumulative expenditures	$	195,305	$	195,305

The Company did not incur any exploration costs during the six months ended February 29, 2016 and February 28, 2015.

In Canadian Dollars

4. MINERAL PROPERTY - *Continued*

c) Adams Plateau Property, BC, Canada

By option agreement dated April 1, 2010, and amended on June 8, 2010, June 1, 2012, October 31, 2013, November 19, 2014 and on July 23, 2015, the Company has an option to acquire a 100% interest in several claim groups called the Adams Plateau Property located northeast of Kamloops in south central British Columbia by making cash payments, issuing common shares and incurring exploration costs as follows:

		Option Payments	Share Issuances		Exploration Expenditures
On execution of the option agreement (paid)	$	15,000	-	$	-
On or before December 31, 2010 (achieved)		-	-		100,000
On or before March 31, 2016		-	-		200,000
On or before December 31, 2016		85,000	100,000		250,000
On or before December 31, 2017		100,000	150,000		350,000
Total	$	200,000	250,000	$	900,000

In order to keep the Adams Plateau property option agreement in good standing, the Company needs to incur a minimum of $85,678 of additional exploration expenditures by March 31, 2016 (accumulated exploration costs of $195,305 are net of $19,017 of BC METC). The Company anticipates that it will let its option to acquire the Adams Plateau Property lapse after Closing of the Proposed Transactions.

5. LOANS PAYABLE

During the year ended August 31, 2014, the Company entered into three loan agreements to borrow $14,500 from each lender. During the year ended August 31, 2015, the Company entered into loan agreements to borrow an additional $30,000 from one of the three lenders, a company partially owned by two directors of the Company. The loans are unsecured, bear interest of 8% per annum and are due and payable on December 31, 2015. The Company intends to negotiate an extension to the repayment dates of the loan payable.

In addition, the Company received a further $10,200 loan advance which is unsecured and non-interest bearing. During the six months ended February 29, 2016, the Company made a loan repayment of $12,500 to one of the three lenders, a company partially owned by two directors of the Company. Out of $71,200 of loan advances received as of February 29, 2016 (August 31, 2015 - $73,700), $42,200 was borrowed from a company partially owned and controlled by two directors of the Company, and the loan amount was fully paid subsequent to current reporting period (Note 12). As at February 29, 2016, the total accrued interest payable to the three lenders is $9,786 (August 31, 2015 – $6,987).

6. SHAREHOLDERS' EQUITY

The Company's authorized share capital consists of an unlimited number of common shares without par value.

a) Share Capital Transactions

During the year ended August 31, 2015, the Company received $1,479,930 of interim financing pending closing of the Proposed Transaction (Note 10). The Company raised the funds through the sale of subscription receipts, raising $1,273,913 in a first-tranche closing on June 1, 2015, $75,000 in a second-tranche closing on July 15, 2015 and $131,017 in a third-tranche closing on October 9, 2015 (for which cash was received on August 31, 2015).

During the six months ended February 29, 2016, the Company received a total of $946,341 proceeds for subscription receipts for a fourth-tranche and a fifth-tranche both closing on March 11, 2016 and a sixth-tranche closing on April 15, 2016 (of which $701,931 was received by the Company, and $244,500 was paid by subscribers directly to K92 Holdings)(Note 12). As a result, total subscription receipts received as of February 29, 2016 were $2,426,361 (August 31, 2015 - $1,479,930).

The subscription receipts have been re-priced from $0.50 per subscription receipt to $0.35 per subscription receipt. As a result of re-pricing, the number of subscription receipts have increased from 2,959,860 to 4,228,371 for the first three tranches that were closed. Each subscription receipt will now entitle the holder to automatically receive, without payment of additional consideration and without further action from the holder;

(i) one unit of Otterburn following the closing of the Proposed Transaction, with each unit consisting of one common share of Otterburn and one common share purchase warrant exercisable at $0.50 for a period of 18 months from the date of issue; or

(ii) should the Proposed Transaction fail to close on or before December 31, 2015 (or such later date as the Company and each subscription receipt holder may agree), a pro-rata share of (A) the loans made to K92 Holdings, (B) the remaining balance of the gross proceeds of the Private Placement (if any) which has not then been loaned by the Company to K92 Holdings, and (C) interest accrued on the loans made to K92 Holdings will be returned to the subscription receipt holders and that the Company shall have no further liability to the subscription receipt holders.

The rights triggered by the subscription receipts are dependent on the closing of the Proposed Transaction. As of the date of these condensed interim financial statements, the Proposed Transaction has not closed. The Company intends to request an extension of the December 31, 2015 date referred to in Note 6a)(ii) to a later date with the subscription receipt holders.

6. SHAREHOLDERS' EQUITY – *Continued*

a) Share Capital Transactions – *Continued*

Pursuant to the terms of the subscription agreements, the Company loaned 100% of the gross proceeds of the financing to K92 Holdings to fund K92 Holdings' operations in Papua New Guinea ("PNG") following the completion of the acquisition of Barrick (Kainantu) Limited ("BLK") on March 5, 2015 until the completion of the Proposed Transaction (Note 10). The loans to K92 Holdings will bear interest at the simple rate of 6% per annum with a maturity date on the closing of the Proposed Transaction or twelve months following the first date of advance of funds, which was March 27, 2015. The loans to K92 Holdings are secured on assets of K92 Holdings. As of February 29, 2016, the loans receivable from K92 Holdings were $2,232,532 (August 31, 2015 - $1,433,810), consisting of loan principal of $2,149,036 (August 31, 2015 - $1,400,930) and accrued interest of $83,496 (August 31, 2015 - $32,910). The $83,496 accrued interest was recorded as share subscriptions received liability.

On December 18, 2014, the Company issued 160,000 common shares as a bonus to a third party lender who loaned $400,000 to K92 Holdings to fund K92 Holdings' on-going costs in relation to its acquisition of BKL and its subsequent acquisition by the Company. The fair value of the shares was $80,000 and was recorded to share-based payments within the statement of comprehensive loss.

During the year ended August 31, 2015, the Company also issued a total of 171,348 common shares as finder's fees at a fair value of $0.50 per common share for a total of $85,674. The associated cost of the finder's fee shares issued in relation to the subscription receipts have been classified as deferred financing costs. These costs will be recognized in equity in the subsequent year upon issuance of the Units after the Proposed Transaction closes. If the transaction does not close then the deferred financing costs will be expensed.

b) Contributed Surplus

As of August 31, 2015 all the expired options and warrants have been transferred to contributed surplus.

As of February 29, 2016 there were no outstanding stock options or common share purchase warrants.

7. SEGMENTED INFORMATION

The Company has only one reportable operating segment, being mineral property explorations in Canada.

In Canadian Dollars

8. RELATED PARTY TRANSACTIONS

The Company's related parties consist of the Company's directors and officers, company owned by the directors and key management personnel of this company, which are as follows:

	Relationship	Nature of Transactions
CDM Capital Partners Inc.	Owned and controlled by two directors of the Company	Accounting, Office and Administration, Rent and Loans Payable

Total compensation paid and accrued to CDM Capital Partners Inc. during the six months ended February 29, 2016 was $24,750 (2015 - $14,000). Details of related party transactions and compensation of key management personnel are as follows:

(a) During the six months ended February 29, 2016, the Company paid or accrued $9,000 (2015 - $6,000) for accounting fees, $6,000 (2015 - $4,000) for office and administrative fees, $9,750 (2015 - $4,000) for rent to CDM Capital Partners Inc.

(b) During the six months ended February 29, 2016, the Company received $10,000 non-interest bearing loan (2015 - $25,000 8% per annum interest bearing loan) from CDM Capital Partners Inc. During the six months ended February 29, 2016, the Company made a loan repayment of $12,500 (2015 - $Nil) to CDM Capital Partners Inc. As at February 29, 2016, a total of $5,325 of interest is owing to CDM Capital Partners Inc.

As at February 29, 2016, there are $42,034 (August 31, 2015 - $29,919) of fees owing to the CDM Capital Partners Inc., which are included in accounts payable and accrued liabilities. The amount owing is interest free, unsecured, current, and without fixed terms of repayment.

9. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders, and to bring its mineral properties to commercial production.

The Company depends on external financing to fund its activities. The capital structure of the Company currently consists of common shares and share purchase warrants. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets, being mineral properties. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, or sell assets to fund operations. Management reviews its capital management approach on regular basis. The Company is not subject to externally imposed capital requirements.

The Company invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly-rated financial instruments, such as cash, with major financial institutions.

10. PROPOSED ACQUISITION

On August 25, 2014, the Company, K92 Holdings International Limited, a BVI company ("K92 Holdings") and the shareholders of K92 Holdings entered into a Share Exchange Agreement, pursuant to which the Company agreed to acquire all of the issued and outstanding shares of K92 Holdings, from the K92 Holdings shareholders, in consideration for issuing pro-rata to the K92 Holdings shareholders one (1) post-consolidated common share of the Company (each a "Payment Shares") for each K92 Holding ordinary share ("K92 Ordinary Share") held. The completion of the acquisition would constitute a reverse takeover of the Company pursuant to TSX Venture Exchange policies.

After further consideration by the parties, it was determined that the acquisition of K92 Holdings was more appropriately structured as business combination through the amalgamation by merger of K92 Holdings and a newly formed BVI subsidiary of the Company. Accordingly, on April 15, 2016, the Company, Cada International Ltd. ("Subco") and and K92 Holdings, entered into a Merger Agreement pursuant to which it was agreed that K92 Holdings and Subco would merge with K92 Holdings being the surviving amalgamated entity (the "Amalgamation"), and whereby the Company will acquire all of the issued and outstanding K92 Ordinary Shares, in exchange for issuing pro-rata to the shareholders of the K92 Ordinary Shares, a total of 49,126,666 Payment Shares.

Under the terms of the Merger Agreement, at the effective time of the Amalgamation the following shall occur:

(a) the Company shall change its name to "K92 Mining Inc." or a similar name;

(b) each one (1) K92 Ordinary Share issued and outstanding immediately prior to the Amalgamation becoming effective shall be cancelled and the holders thereof shall receive one (1) fully paid and non-assessable Payment Share for each one (1) K92 Ordinary Share;

(c) each one (1) Class A preferred share of K92 Holdings issued and outstanding immediately prior to the Amalgamation becoming effective shall be cancelled and the holders thereof shall receive one (1) fully paid and non-assessable Class A preferred share in the capital of the Company for each one (1) Class A preferred share of K92 Holdings;

(d) each one (1) K92 ordinary share purchase warrant issued and outstanding immediately prior to the Amalgamation becoming effective shall be cancelled and the holders thereof shall receive one (1) common share purchase warrant of the Company (having the same terms) for each K92 ordinary share purchase warrant;

(e) Subco and K92 Holdings shall merge and K92 Holdings shall continue as the surviving company under the British Virgin Islands Business Corporations Act;

In Canadian Dollars

10. PROPOSED ACQUISITION – *Continued*

(f) each one (1) ordinary shares in capital of Subco issued and outstanding immediately prior to the Amalgamation becoming effective shall be exchanged for one (1) ordinary share in the company continuing following the merger of K92 Holdings and Subco which will be named K92 Holdings International Limited. ("Amalco");

(g) as consideration for the issuance of Payment Shares in connection with the Amalgamation, Amalco shall issue to the Company one (1) ordinary share in the capital of Amalco for each Payment Share issued;

(h) Amalco shall be a wholly-owned subsidiary of the Company; and the Company shall assume all rights, liabilities, obligations and benefits of K92 Holdings.

Satisfaction or waiver of the above conditions precedent and closing of the Amalgamation and all ancillary transaction (the "Proposed Transaction") must occur on before July 1, 2016, unless extended in writing by the Company and K92 Holdings.

11. FINANCIAL INSTRUMENTS

The classification of the financial instruments as well as their carrying values is shown in the table below:

		February 29, 2016		August 31, 2015
Loans and receivables	$	2,402,179	$	1,443,788
Other financial liabilities	$	2,791,180	$	1,777,011

a) Fair Value of Financial Instruments

The fair value of a financial instrument is the amount of consideration that would be agreed upon in an arm's length transaction between willing parties.

The fair value of cash, accounts receivable, loan receivable, accounts payables and accrued liabilities, loans payable and share subscriptions received may be less than the carrying value for some of these instruments, given going concern uncertainties described in Note 1.

b) Management of Risks Arising From Financial Instruments

The Company is exposed to various types of market risks including credit risk and liquidity risk. This is not an exhaustive list of all risks, nor will the mitigation strategies eliminate all risks listed.

In Canadian Dollars

11. FINANCIAL INSTRUMENTS - *Continued*

b) Management of Risks Arising From Financial Instruments – *Continued*

(i) Credit Risk – Credit risk is the risk that one party to a financial instrument will fail to fulfill an obligation and cause the other party to incur a financial loss. The Company's credit risk consists primarily of cash, accounts receivable and loans receivable. To mitigate credit risk, the holders of the subscription receipts agreed that should the Proposed Transaction fail to close on or before December 31, 2015 (or such later date as the Company and each Subscription Receipt holder may agree), a pro-rata share of (A) the loans made to K92 Holdings, (B) the remaining balance of the gross proceeds of the Private Placement (if any) which has not then been loaned by the Company to K92 Holdings, and (C) interest accrued on the loans made to K92 Holdings will be returned to the subscription receipt held, and that the Company shall have no further liability to the subscription receipt holders. The credit risk is also minimized by placing cash with major Canadian financial institutions.

(ii) Liquidity Risk – Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. To mitigate this risk, the Company has a planning and budgeting process in place to determine the funds required to support its ongoing operations and capital expenditures. In the past sufficient funds have been raised to meet its operating requirements, after taking into account existing cash and expected exercise of share purchase warrants. The Company's cash is held in business accounts which are available on demand for the Company's programs and are not invested in any asset-backed deposits or investments. Please refer also to Note 1 – Nature of operations and going concern.

The following table summarizes the Company's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date.

As at February 29, 2016	Less than 1 year
Accounts payable and accrued liabilities	200,337
Loans payable	80,986
Share subscription received (Note 6a))	2,509,857
	2,791,180

12. SUBSEQUENT EVENTS

Subsequent to February 29, 2016, the Company closed the interim financing through the sale of subscription receipts, raising $15,000 in a fourth-tranche on March 11, 2016, $4,572,207 in a fifth-tranche on March 11, 2016 and $923,756 in a sixth-tranche on April 15, 2016. As at the date of these condensed interim financial statements, the Company has received $151,387 for a seventh-tranche pending for closing.

During the six months ended February 29, 2016 and up until the date of these condensed interim financial statements, the Company received gross proceeds of $5,417,849 for subscription receipts received, of which $3,407,356 were loaned to K92 Holdings.

Subsequent to February 29, 2016, the Company repaid $47,525 loan payable comprising of $42,200 of principal and $5,325 accrued interest payable to a company partially owned and controlled by two directors of the Company.