K92 MINING INC.

CONSOLIDATED FINANCIAL STATEMENTS

(Presented in United States Dollars)

FOR THE YEAR ENDED DECEMBER 31, 2017,
THE FOUR MONTH TRANSITIONAL FISCAL YEAR ENDED DECEMBER 31, 2016 AND
THE YEAR ENDED AUGUST 31, 2016

April 25, 2018

Independent Auditor's Report

To the Shareholders of K92 Mining Inc.

We have audited the accompanying consolidated financial statements of K92 Mining Inc., which comprise the consolidated statements of financial position as at December 31, 2017, December 31, 2016, and August 31, 2016 and the consolidated statements of operations and comprehensive loss, cash flows, and changes in shareholders' equity (deficit) for the year ended December 31, 2017, the four month period ended December 31, 2016, and the year ended August 31, 2016, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of K92 Mining Inc. as at December 31, 2017, December 31, 2016, and August 31, 2016 and its financial performance and its cash flows for the year ended December 31, 2017, the four month period ended December 31, 2016, and the year ended August 31, 2016 in accordance with International Financial Reporting Standards.

Emphasis of matter
Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about K92 Mining Inc.'s ability to continue as a going concern.

(Signed) "PricewaterhouseCoopers LLP"

Chartered Professional Accountants

K92 MINING INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Presented in United States Dollars)

AS AT	December 31, 2017	December 31, 2016	August 31, 2016
ASSETS			
Current			
Cash and cash equivalents	$ 1,159,538	$ 4,291,697	$ 7,669,314
Receivables (Note 5)	622,377	114,076	133,824
Inventory (Note 6)	2,045,636	931,160	825,136
Prepayments (Note 7)	642,354	266,427	960,396
	4,469,905	5,603,360	9,588,670
Exploration and evaluation assets (Note 8)	-	-	1,885,480
Property, plant and equipment (Note 10)	37,566,840	19,270,625	10,409,134
	$ 42,036,745	$ 24,873,985	$ 21,883,284
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Accounts payable and accrued liabilities (Note 11)	$ 9,902,887	$ 6,182,335	$ 3,227,949
CRH financing (Note 12)	4,420,366	4,128,134	3,841,933
Finance lease (Note 10)	242,787	221,813	210,087
	14,566,040	10,532,282	7,279,969
Finance lease (Note 10)	85,990	104,021	164,622
CRH financing (Note 12)	3,688,819	2,878,075	5,599,186
Reclamation and closure cost obligations (Note 13)	2,354,323	2,170,823	2,094,166
	20,695,172	15,685,201	15,137,943
Shareholders' equity			
Share capital (Note 14)	46,626,267	28,315,925	20,275,965
Preferred shares (Note 12 and 14)	1,018,876	1,018,876	2,037,752
Contributed surplus (Note 14)	9,366,514	4,268,350	4,032,145
Accumulated other comprehensive loss (income)	(125,516)	(938,836)	(219,094)
Deficit	(35,544,568)	(23,475,531)	(19,381,427)
	21,341,573	9,188,784	6,745,341
	$ 42,036,745	$ 24,873,985	$ 21,883,284

Nature of business, going concern and change in year-end (Note 1)
Subsequent events (Note 20)

Approved and authorized by the Board of Directors on April 24, 2018:

"Saurabh Handa" Director *"R. Stuart Angus"* Director

The accompanying notes are an integral part of these audited consolidated financial statements.

K92 MINING INC.
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Presented in United States Dollars)

	For the year ended December 31, 2017	For the four month period ended December 31, 2016	For the year ended August 31, 2016
EXPENSES			
Accretion expense (Note 13)	$ -	$ 59,624	$ 145,118
Amortization (Note 10)	-	43,401	151,191
Consulting and administrative (Note 9)	2,749,799	824,632	2,983,309
Exploration and evaluation expenditures	268,427	178,643	39,122
Financing fee	-	-	367,542
Foreign exchange	34,488	(118,683)	(773,204)
Mine site administration expense	-	4,257,903	5,304,274
Interest expense	-	-	54,80
Investor relations	967,935	443,998	1,138,158
Share-based payments	1,128,695	969,396	310,874
	$ (5,149,344)	$ (6,658,914)	$ (9,720,664)
OTHER			
Gain on settlement of debt	51,739	-	406,880
Interest	10,957	-	-
Impairment of property, plant and equipment (Note 10)	(1,717,837)	-	-
Net smelter return expense (Note 12)	(18,866)	-	-
Fair value gain (loss) on gold purchase agreement (Note 12)	(2,568,049)	2,564,810	(4,450,575)
Listing expense	-	-	(1,608,070)
Amortization of deferred loss (Note 12)	(2,677,637)	-	-
Loss for the period	$ (12,069,037)	$ (4,094,104)	$ (15,372,429)
Items that may be reclassified to net loss			
Other comprehensive income			
Cumulative translation adjustment	813,320	(719,742)	(219,094)
Loss and comprehensive loss for the period	$ (11,255,717)	$ (4,813,846)	$ (15,591,523)
Basic and diluted loss per common share	$ (0.08)	$ (0.04)	$ (0.26)
Weighted average number of common shares outstanding	143,800,159	111,918,055	59,022,421

The accompanying notes are an integral part of these audited consolidated financial statements.

K92 MINING INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Presented in United States Dollars)

	For the year ended December 31, 2017	For the four month period ended December 31, 2016	For the year ended August 31, 2016
CASH FROM OPERATING ACTIVITIES			
Loss for the period	$ (12,069,037)	$ (4,094,104)	$ (15,372,429)
Items not affecting cash:			
Unrealized foreign exchange gain (loss)	183,500	(632,085)	320,843
Accrued interest	-	-	54,280
Accretion expense (Note 13)	-	59,624	145,118
Amortization of deferred loss (Note 12)	2,677,637	-	-
Impairment of property, plant and equipment (Note 10)	1,717,837	-	-
Fair value loss (gain) on gold purchase agreement (Note 12)	2,568,049	(2,564,810)	4,450,575
Share-based payments (Note 14)	1,128,695	969,396	310,874
Amortization (Note 10)	290,164	43,401	151,191
Gain on settlement of debt	(51,739)	-	(406,880)
Changes in non-cash working capital items:			
Inventory	(1,114,476)	(106,024)	(280,961)
Receivables	44,685	19,748	(110,036)
Prepayments	(375,927)	693,969	(930,490)
Accounts payable and accrued liabilities	(3,183,158)	1,093,350	(614,673)
Net cash used in operating activities	(8,183,770)	(4,517,535)	(12,282,588)
CASH FROM INVESTING ACTIVITIES			
Lease payments	(235,487)	(48,875)	-
Acquisition of Otterburn Resources Corp. (Note 4)	-	-	1,472,329
Proceeds from pre-production concentrate sales	5,007,381	-	-
Acquisition of Property, plant and equipment	(16,976,028)	(5,028,476)	(6,691,382)
Net cash used in investing activities	(12,204,134)	(5,077,351)	(5,219,053)
CASH FROM FINANCING ACTIVITIES			
Proceeds on issuance of capital stock (Note 14)	19,864,463	-	11,164,289
Proceeds on issuance of preferred stock	-	-	2,677,419
Proceeds on exercise of warrants	2,744,662	6,287,893	2,997,864
CRH financing (Note 12)	-	-	4,813,974
Loans received by the Company	-	-	50,922
Loans repaid by the Company	-	-	(387,674)
Loans received from Otterburn prior to RTO	-	-	3,964,129
Proceeds on exercise of stock options	31,167	-	-
Purchase of gold credits (Note 12)	(4,594,770)	-	-
Share issuance costs (Note 14)	(941,434)	-	(272,817)
Net cash provided by financing activities	17,104,088	6,287,893	25,008,106
Change in cash and cash equivalents during the period	(3,283,8164)	(3,306,993)	7,506,465
Effect of foreign exchange on cash	151,657	(70,624)	-
Cash and cash equivalents, beginning of period	4,291,697	7,669,314	162,849
Cash and cash equivalents, end of period	$ 1,159,538	$ 4,291,697	$ 7,669,314
Cash paid for interest	$ -	$ -	$ 54,280
Cash paid for taxes	$ -	$ -	$ -

Supplemental disclosure with respect to cash flows (Note 18)

The accompanying notes are an integral part of these audited consolidated financial statements.

K92 MINING INC.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIT)
(Presented in United States Dollars)

	Share capital						
	Number	Amount	Preferred shares	Contributed surplus	Accumulated other comprehensive loss	Deficit	Total
Balance at August 31, 2015	49,126,666	$ 2,817,692	$ -	$ 30,744	$ -	$ (4,008,998)	$ (1,160,562)
Acquisition of Otterburn Resources Corp.	4,459,775	906,432	-	-	-	-	906,432
Private placements	35,603,010	13,513,127	-	3,364,527	-	-	16,877,654
Share issuance costs, shares	1,304,433	579,963	-	-	-	-	579,963
Share issuance costs, shares	-	(579,963)	-	-	-	-	(579,963)
Share issuance costs, warrants	-	(203,271)	-	203,271	-	-	-
Share issuance costs, cash	-	(272,817)	-	-	-	-	(272,817)
Issuance of preferred shares	-	-	2,037,752	639,667	-	-	2,677,419
Exercise of warrants	7,787,160	3,514,802	-	(516,938)	-	-	2,997,864
Share-based payments	-	-	-	310,874	-	-	310,874
Cumulative translation adjustment	-	-	-	-	(219,094)	-	(219,094)
Loss for the year	-	-	-	-	-	(15,372,429)	(15,372,429)
Balance at August 31, 2016	98,281,044	20,275,965	2,037,752	4,032,145	(219,094)	(19,381,427)	6,745,341
Conversion of preferred shares (Note 12 and 14)	9,503,662	1,018,876	(1,018,876)	-	-	-	-
Exercise of warrants	11,641,821	7,021,084	-	(733,191)	-	-	6,287,893
Share-based payments (Note 14)	-	-	-	969,396	-	-	969,396
Cumulative translation adjustment	-	-	-	-	(719,742)	-	(719,742)
Loss for the period	-	-	-	-	-	(4,094,104)	(4,094,104)
Balance at December 31, 2016	119,426,527	28,315,925	1,018,876	4,268,350	(938,836)	(23,475,531)	9,188,784
Private placements	34,026,583	16,363,592	-	3,500,871	-	-	19,864,463
Share issuance costs, units	1,053,333	464,920	-	131,937	-	-	596,857
Share issuance costs, units	-	(596,857)	-	-	-	-	(596,857)
Share issuance costs, cash	-	(941,434)	-	-	-	-	(941,434)
Share issuance costs, warrants	-	(236,351)	-	236,351	-	-	-
Exercise of warrants	7,148,067	3,219,170	-	(474,508)	-	-	2,744,662
Exercise of stock options	92,400	37,302	-	(6,135)	-	-	31,167
Share-based payments (Note 14)	-	-	-	1,709,648	-	-	1,709,648
Cumulative translation adjustment	-	-	-	-	813,320	-	813,320
Loss for the year	-	-	-	-	-	(12,069,037)	(12,069,037)
Balance at December 31, 2017	161,746,910	$46,626,267	$ 1,018,876	$ 9,366,514	$ (125,516)	$ (35,544,568)	$ 21,341,573

The accompanying notes are an integral part of these audited consolidated financial statements.

1. NATURE OF BUSINESS AND GOING CONCERN

K92 Mining Inc. (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, development and mining of mineral deposits in Papua New Guinea, specifically the Kainantu Project.

The Company's head office and principal address is 488 - 1090 West Georgia Street, Vancouver, British Columbia, V6E 3V7. The registered and records office is 550 Burrard Street, Vancouver, British Columbia, V6C 0A3.

These 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 rather than through a process of forced liquidation.

As at December 31, 2017, the Company had a cumulative deficit of $35,544,568, working capital deficit of $10,096,135 and cash and cash equivalents of $1,159,538. For the year ended December 31, 2017, the Company reported a loss of $12,069,037 and cash outflows from operating activities of $8,183,770. Subsequent to year-end, the Company completed a CAD$6,500,025 private placement (Note 20). Continued operations of the Company are dependent on the Company's ability to receive financial support, necessary financings, or generate profitable operations in the future. There can be no assurance that adequate additional financing will be available at terms acceptable to the Company or at all, which casts significant doubt on the Company's ability to continue as a going concern.

The audited consolidated financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations; these adjustments could be material.

CHANGE OF YEAR-END

During the four months ended December 31, 2016, the Company approved a change in its year-end from August 31st to December 31st. The Company's transition period was the four months ended December 31, 2016. The comparative period for the year ended December 31, 2017 is the four month period ended December 31, 2016 and the year ended August 31, 2016. The new financial year aligns the Company with its peers and the statutory requirements of Papua New Guinea.

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB.

Basis of Presentation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial liabilities measured at fair value.

The consolidated financial statements of the Company are presented in United States dollars, which is the functional currency of K92 Mining Ltd. and K92 Holdings International Limited. The parent company, K92 Mining Inc., has a functional currency of the Canadian Dollar and K92 Mining (Australia) Pty Ltd. has a functional currency of the Australian Dollar.

2. BASIS OF PREPARATION (cont'd…)

Significant accounting judgements, estimates and assumptions

The preparation of these 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 Mining Lease 150 ("**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 have been accrued but not paid.

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 December 31, 2017 and 2016 was $551,469 (1.75 million Papua New Guinea Kina), which reflects expected cost.

Mineral properties

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.

2. BASIS OF PREPARATION (cont'd…)

Significant accounting judgements, estimates and assumptions (cont'd…)

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 ended August 31, 2016, 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.

2. BASIS OF PREPARATION (cont'd…)

Significant accounting judgements, estimates and assumptions (cont'd…)

Contingent Liability

The Company has determined not to record a liability related to the acquisition of Barrick (Kainantu) Limited (Note 4) 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.

Share-based payments

Share-based payments are subject to estimation of the value of the award at the date of grant using pricing models such as the Black-Scholes option valuation model. The option valuation model requires the input of highly subjective assumptions including the expected share price volatility. Because the Company's warrants have characteristics significantly different from those of traded options and because the subjective input assumptions can materially affect the calculated fair value, such value is subject to measurement uncertainty.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the financial statements of the Company and the subsidiaries controlled by the Company. Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control is transferred to the Company until the date that control ceases. All intercompany transactions and balances have been eliminated on consolidation.

The consolidated financial statements include the financial statements of the Company and its subsidiaries:

Company	Place of Incorporation	Effective Interest	Principal Activity
K92 Mining (Australia) Pty Ltd.	Australia	100%	Operating
K92 Holdings International Limited	British Virgin Islands	100%	Holding
K92 Mining Limited	Papua New Guinea	100%	Operating

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Inventory

Inventories are valued at the lower of weighted average cost and net realizable value. Cost includes acquisition, freight, and other directly attributable costs.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Valuation of equity units issued in private placements

The fair value of the common shares issued in the private placements was determined to be the pro rata portion of the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date and the pro rata fair value attributable to the warrants that was calculated using the Black-Scholes pricing model. Warrants that are issued as payment for an agency fee or other transaction costs are accounted for as share-based payments.

Impairment

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value 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 is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity. Current tax expense is the expected tax payable on taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Temporary differences are not provided for relating to goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable loss, nor differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the date of the statement of financial position.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it does not recognize the excess.

Cash and equivalents

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Provisions

a) Environmental rehabilitation provisions

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an environmental rehabilitation obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional rehabilitation costs). The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated.

Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are charged to the statement of loss and comprehensive loss.

b) Other provisions

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. An amount equivalent to the discounted provision is capitalized within tangible fixed assets and is depreciated over the useful lives of the related assets. The increase in the provision due to passage of time is recognized as interest expense.

Foreign exchange

The functional currency is the currency of the primary economic environment in which the entity operations and has been determined for each entity within the Company. The functional currency for K92 Holdings International Limited (accounting parent) and K92 Mining Ltd. is the United States dollar and the functional currency of K92 Mining Inc. is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21.

The Effects of Changes in Foreign Exchange Rates

Transactions in foreign currencies are initially recorded into the functional currency by applying the exchange rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate prevailing at the balance sheet date. Nonmonetary assets and liabilities are translated at historical exchange rates, unless the item is carried at fair value, in which case it will be translated at the exchange rate in effect at the date when the fair value was determined. Resulting foreign exchange gains and losses are recognized in the statement of operations except those of K92 Mining Inc. which are recognized as cumulative translation adjustment on the statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Exploration and evaluation assets

Exploration and evaluation licenses

All direct costs related to the acquisition of mineral property interests are capitalized into intangible assets on a property by property basis.

Exploration and evaluation expenditures

Exploration costs, net of incidental revenues, are charged to statement of operations in the year incurred until the technical feasibility and commercial viability of the extraction of mineral reserves or resources from a particular mineral property has been determined, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated reserves, according to national instrument 43-101, as the depletion base.

The establishment of technical feasibility and commercial viability of a mineral property is assessed based on a combination of factors, such as but not limited to:

- The extent to which mineral reserves or mineral resources have been identified through a feasibility study or similar level document;
- The results of optimization studies and further technical evaluation carried out to mitigate project risks identified in the feasibility study;
- The status of environmental permits, and
- The status of mining leases or permits.

In addition, commercial viability is deemed to be achieved when the Company determines that the project will provide a satisfactory return relative to its perceived risks. Ore reserves may be declared for an undeveloped mining project before its commercial viability has been fully determined.

Deferred loss

Deferred loss are carried at cost, less accumulated amortization and accumulated impairment losses and is amortized by units of production.

Property, plant and equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. The following table outlines the methods used to depreciate property, plant and equipment:

Mineral properties under development	Units of production
Mine and mill refurbishment	Units of production
Vehicles	Straight line 3 years
Mobile fleet	Units of production
Equipment under finance lease	Units of production
Infrastructure – residence camp	Straight line 9 years
Infrastructure – plant area	Straight line 9 years

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Property, plant and equipment (cont'd…)

Mineral property costs are carried at cost, less accumulated depletion. Costs of project development including gaining initial access to the ore body are capitalized to mineral properties. Once the mineral property is in production, it will be depleted using the units of production method, based on recoverable tonnes from the estimated proven and probable reserves. Capitalization of pre-commercial production ceases when the mining property is capable of commencement of mining operations in the manner intended by management. Costs incurred prior to this point, including depreciation of related plant and equipment, are capitalized and proceeds from sales during this period are offset against capitalized costs. The Company applies judgment in its assessment of when a mine is capable of operating in the manner intended by management, which takes account of the design of the mine and the nature of the initial commissioning phase of the operation.

Contingent liabilities

Contingent liabilities are recognized when payment is expected to occur. At each statement of financial position date an estimate is made of the payments that will be required in accordance with IAS 37: Provisions, contingent liabilities and contingent assets.

Financial instruments

The Company considers cash and cash equivalents to include amounts held in banks. The Company places its cash with major financial institutions in Australia, Papua New Guinea and Canada.

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 through profit and loss. The Company's cash is classified as loans and receivables. Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost.

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.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other financial liabilities. Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. The effective interest rate 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 discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts payable and accrued liabilities are classified as other financial liabilities.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments (cont'd…)

Derivative instruments

Derivative instruments, including embedded derivatives, are classified at fair value through profit or loss and, accordingly, are recorded on the statement of financial position at fair value. Fair values for derivative instruments are determined using valuation techniques, with assumptions based on market conditions existing at the statement of financial supposition date or settlement date of the derivative. Derivatives embedded in non-derivative contracts are recognized separately unless they are closely related to the host contract.

New standards not yet adopted

Certain pronouncements were issued by the IASB or IFRIC that are not mandatory for accounting periods beginning on or after January 1, 2017 or later periods. They have not been early adopted in these consolidated financial statements, and they are expected to affect the Company in the period of initial application. In all cases the Company intends to apply these standards from application date as indicated below:

IFRS 15 Revenue from Contracts with Customers deals with revenue recognition and establishes principles of reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when the customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Standard replaces IAS 18 Revenue, and IAS 11 Construction Contracts and related interpretations. IFRS 15 will be effective for annual periods beginning on or after January 1, 2018. The Company determined there to be no impact on these financial statements as the Company has yet to generate revenue.

IFRS 9 Financial Instruments addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized costs, fair value through OCI and fair value through P&L. The basis of classification depends on entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39. The Standard is effective for accounting periods beginning on or after January 1, 2018. The Company is determined there to be no impact on these financial statements from the adoptions of IFRS 9.

IFRS 16 Leases will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted, provided the Company has adopted IFRS 15 Revenue from Contracts with Customers. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

(Presented in United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New standards not yet adopted (cont'd…)

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

4. ACQUISITION OF BARRICK (KAINANTU) LIMITED

Through its wholly owned subsidiary, K92 Holdings (PNG) Limited ("**K92PNG**"), on June 10, 2014, K92 Intl entered into a Share Sale Agreement ("**SSA**") with Barrick (Niugini) Limited ("**Barrick**"), Mt Apex Investment Holdings Limited ("**Apex**"), and Otterburn, whereby K92PNG agreed to acquire all of the outstanding shares of Barrick's wholly owned Papua New Guinea subsidiary, Barrick (Kainantu) Limited ("**Kainantu**"), that holds certain assets and mineral rights and interests in Papua New Guinea.

As consideration, K92PNG agreed to pay up to $62,000,000 as follows:

- $2,000,000 (paid);
- $20,000,000 upon K92PNG determining the existence of at least 1,000,000 gold equivalent ounces within 10 years, classified as a measured, indicated, probable ore resource, or a proven ore reserve equivalent ounce of gold in accordance with Australasian Code for Reporting Results, Mineral Resources and Ore Reserves; plus, cumulative production ("**Earn-Out Ounces**"); and
- $5,000,000 for every 250,000 ounces in excess of the Earn-Out Ounces achieved by K92PNG within 10 years, up to a maximum of 2,000,000 ounces or $40,000,000 in aggregate.

Pursuant to the PNG Mining Act, a 2% net smelter returns royalty, and a 0.25% levy on gross mine revenues are payable to the PNG government.

The SSA was contingent on the renewal of the mining leases which were renewed on January 23, 2015 for a period of 10 years effective from June 14, 2014 through June 13, 2024. Management has valued the consideration to be paid for Earn-Out Ounces at $Nil.

On March 6, 2015, K92 Intl completed the SSA with Barrick. The cost of the acquisition was $2,525,220 consisting of $2,000,000 in cash and $525,220 in transaction costs.

5. RECEIVABLES

	December 31, 2017	December 31, 2016	August 31, 2016
Concentrate sales receivable	$ 556,592	$ -	$ -
Other	65,785	114,076	133,824
Total	$ 622,377	$ 114,076	$ 133,824

(Presented in United States Dollars)

6. INVENTORY

Inventory of $2,045,636 as of December 31, 2017 (December 31, 2016 - $931,160) consists of mine supplies, consumables and fuel.

7. PREPAYMENTS

Prepayments of $642,354 as of December 31, 2017 (December 31, 2016 - $266,427) consists of prepaid insurance and investor relations.

8. EXPLORATION AND EVALUATION ASSETS

Title to mineral properties

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain mineral titles as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral properties.

Mining Lease 150 ("ML 150")

The Company holds the mining rights to ML 150 until June 13, 2024.

As a requirement of the mining lease, the Company must commence mining operations on the Kora deposit located on ML 150 on or before June 30, 2018 (completed subsequent to year-end).

The Company began capitalizing costs associated with ML 150 to Mineral Properties under Development within Property, Plant and Equipment after technical feasibility and commercial viability was reached December 1, 2016.

Exploration Licenses ("EL") 470, 693, and 1341

The Company holds certain exploration licenses adjacent to the Company's ML 150. The Company has not assigned any value to these licenses.

9. EXPENSES

Consulting and administrative expense consisted of the following:	Year ended December 31, 2017	Four months ended December 31, 2016
Consulting	$ 1,497,346	$ 413,567
Professional fees	163,656	202,648
Payroll taxes on expatriate withholdings	469,873	-
Office and administrative	364,181	75,538
Travel	254,743	132,879
	$ 2,749,799	$ 824,632

(Presented in United States Dollars)

10. PROPERTY, PLANT AND EQUIPMENT

	Mineral Properties under Development	Mine and Mill Refurbishment	Mobile Fleet and Vehicles	Equipment under finance lease	Total
Cost					
Balance, August 31, 2016	$ -	$ 7,986,215	$ 2,183,014	$ 464,692	$ 10,633,921
Additions	2,166,499	6, 738,393	-	-	8,904,892
Balance, December 31, 2016	2,166,499	14,724,608	2,183,014	464,692	19,538,813
Additions	24,254,100	998,718	-	318,494	25,571,312
Capitalized depreciation	296,370	-	-	-	296,370
Impairment	-	(1,256,244)	-	(464,692)	(1,720,936)
Capitalized pre-production concentrate sales	-	(5,560,367)	-	-	(5,560,367)
Balance, December 31, 2017	$ 26,716,969	$ 8,906,715	$ 2,183,014	$ 266,000	$ 38,125,192
Accumulated depreciation					
Balance, August 31, 2016	$ -	$ 152,367	$ 72,420	$ -	$ 224,787
Depreciation for the year	-	29,401	14,000	-	43,401
Balance, December 31, 2016	-	181,768	86,420	-	268,188
Impairment	-	-	-	(3,106)	(3,106)
Depreciation for the year	-	222,206	53,767	17,297	293,270
Balance, December 31, 2017	$ -	$ 403,974	$ 140,187	$ 14,191	$ 558,352
Carrying amounts					
As at December 31, 2016	$ 2,166,499	$ 14,542,840	$ 2,096,594	$ 464,692	$ 19,270,625
As at December 31, 2017	$ 26,716,969	$ 8,502,741	$ 2,042,827	$ 304,303	$ 37,566,840

All of the Company's mining properties and related property, plant and equipment are located in Papua New Guinea.

The costs associated with ML 150 have been capitalized since December 2016 and were reclassified from exploration and evaluation ("E&E") assets to Mineral Properties under Development. At December 1, 2016, the Company had completed a preliminary economic assessment ("PEA") showing a positive net present value. In addition one of the risks identified, power supply, was mitigated with the five-year power agreement. As a result of these factors, ML 150 transitioned from an E&E asset under IFRS 6 to mineral properties, plant and equipment under IAS 16. At the time of the transition from exploration and evaluation to plant and equipment, the Company completed an impairment test as required by IFRS 6. The impairment test compared the carrying amount of ML 150 to its recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and value in use. The Company estimated the recoverable amount based on the fair value less costs of disposal using a discounted cash flow model based on the Company's PEA. The significant assumptions that impact the resulting fair value include future gold prices, exchange rates, capital cost estimates, operating cost estimates, estimated reserves and resources and the discount rate. Upon completion of the impairment test, the Company concluded there was no impairment.

(Presented in United States Dollars)

10. PROPERTY, PLANT AND EQUIPMENT (cont'd…)

The Company has recorded the following as finance leases:

	December 31, 2017	December 31, 2016
Equipment leases payable in monthly instalments of $16,292 plus interest at 8.52% per annum. Matures July 2018.	$ 114,042	$ 325,834
Equipment lease payable in monthly instalments of $9,208 plus interest at 9.02% per annum. Matures September 2019.	193,375	-
Equipment lease payable in monthly instalment of $2,306 plus interest at 17.00% per annum. Matures October 2018.	21,360	-
Present value of future minimum lease payments	$ 328,777	$ 325,834
Current portion	$ 242,787	$ 221,813
Long-term portion	$ 85,990	$ 104,021

During the year ended December 31, 2017, the Company recorded an impairment to property, plant, and equipment of $1,717,837 (2016 - $Nil). The impairment was the result of third party vandalism at the mine site.

11. RELATED PARTY TRANSACTIONS

Key management compensation consists of the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, and the Board of Directors.

During the year ended December 31, 2017, the Company paid or accrued:

a) Consulting fees of $243,920 (four-month period ended December 31, 2016 - $96,000) to a director and former CEO of the Company, $100,800 (four-month period ended December 31, 2016 – $33,600) to the CFO of the Company, $356,139 (four month period ended December 31, 2016 - $87,600) to the CEO, director, and former COO of the Company, $75,000 (four-month period ended December 31, 2016 - $25,000) to the Chairman of the Board, and $216,000 (four-month period ended December 31, 2016 – $72,000) to the president of the Company. The Company also paid professional fees of $19,406 (four-month period ended December 31, 2016 - $5,958) to a Company related to the CFO.

b) Share-based compensation of $874,778 (four-month period ended December 31, 2016 - $596,742) to the officers and directors of the Company was recorded.

Included in accounts payable and accrued liabilities is $44,335 (December 31, 2016 - $4,951) due to directors, officers, and companies controlled by directors and officers of the Company that is non-interest bearing and due on demand.

(Presented in United States Dollars)

12. CRH FINANCING

Gold prepayment agreement

On February 4, 2016, the Company entered into financing agreements with CRH Funding II Pte. Ltd. ("**CRH**"), an affiliate of Cartesian Royalty Holdings and Cartesian Capital Group, consisting of a gold prepayment investment and an equity investment. Upon signing, the Company drew down the first tranche under the gold prepayment agreement (the "**GPA**"), which as per the GPA must be used for project related expenditures.

Under the GPA, CRH committed to provide the Company with up to $4,813,974 over four tranches in exchange for a percentage of gold produced at the Irumafimpa and Kora deposits over a 36-month period, subject to a minimum of 18,000 ounces of gold and a maximum of 20,000 ounces of gold. During the year ended December 31, 2017 the Company purchased 3,675 ounces of gold credits and delivered them to CRH per the terms of the GPA.

CRH advanced the first tranche of $962,795 on February 4, 2016, the second tranche of $1,375,421 on March 23, 2016, the third tranche of $2,063,132 on May 10, 2016, and the fourth tranche of $412,626 on June 6, 2016 under the GPA.

The Company recorded a CRH financing liability as follows:

CRH Financing Liability	December 31, 2017	December 31, 2016
CRH liability, beginning of period	$ 21,578,385	$ 24,013,295
Add:		
Fair value adjustment	2,568,049	(2,564,810)
Delivery of gold ounces during the period	(4,594,769)	-
Capitalized interest	452,059	129,900
	20,003,724	21,578,385
Less:		
Deferred loss	14,572,176	14,572,176
Amortization of deferred loss based on delivered ounces	(2,677,637)	-
	(11,894,539)	(14,572,176)
Balance, end of period	$ 8,109,185	$ 7,006,209
CRH financing liability, short-term	$ 4,420,366	$ 4,128,134
CRH financing liability, long-term	$ 3,688,819	$ 2,878,075

$758,530 (December 31, 2016 – $306,471) representing the interest component of the CRH financing has been capitalized to property, plant and equipment since the inception of the CRH financing, as they meet the criteria of being qualifying assets.

(Presented in United States Dollars)

12. CRH FINANCING (cont'd…)

Gold prepayment agreement (cont'd…)

The gold prepayment liability of $20,003,724 (December 31, 2016 - $21,578,385) was calculated using the following assumptions:

	December 31, 2017	December 31, 2016
Discount rate	8.20%	8.09%
Expected life of gold stream	22 months	22 months
Expected remaining repayment in gold ounces	16,325	20,000
Future gold price per ounce	$1,331	$1,165

The difference of cash received of $962,795 and the initial fair value of the gold prepayment liability of $15,534,971 was recorded as a deferred loss and is recognized over the units of production.

Preferred unit financing

In addition to the advances under the GPA, CRH committed to an equity investment of up to CAD$3,500,000 ($2,677,419) in the Company over two tranches, pursuant to which CRH subscribed for up to 10 million units of the Company at CAD$0.35 per unit. CRH advanced the first tranche of CAD$1,900,000 on June 6, 2016 and the second tranche of CAD$1,600,000 on July 4, 2016. Of which, $2,037,752 in value was attributed to the preferred shares and $639,667 in value was attributed to the warrants. Each unit consisted of:

- One Class A preferred share, convertible into approximately 1.9 ordinary common shares of the Company. Each Class A preferred share is redeemable by CRH at 1.5 times the original subscription price of CAD$3,500,000 if K92 is unable to meet certain conditions, including the delivery requirements of gold under the GPA.

- One warrant entitling CRH to purchase one ordinary share of the Company, exercisable at CAD$0.75 per share for a period of two years following the date of issue. At the discretion of the Company, a forced exercise clause will exist on these warrants if shares of the Company trade at CAD$1.25 or greater and a minimum of 30,000 shares trade each day and a minimum daily average of 100,000 for 10 consecutive days during the two-year term. During the period ended December 31, 2016, the warrants were exercised.

As security for the Company's obligations under the GPA and the Class A preferred shares issued to CRH under the equity component, K92 has granted CRH a comprehensive general security interest in all of K92's present and future property, together with specific security granted by the Company's subsidiaries in Papua New Guinea.

As additional consideration for the financing, the Company's wholly owned subsidiaries in Papua New Guinea have granted CRH a 0.25% net smelter return ("**NSR**") royalty on Kora (with a buyback provision of $2,000,000) and a 0.5% NSR on Irumafimpa. For the year period ended December 31, 2017, the Company paid an NSR of $18,866 (2016 - $Nil).

CRH will be entitled to representation on the board of directors of the Company so long as the GPA remains outstanding or CRH maintains at least a 5% equity ownership in the Company.

(Presented in United States Dollars)

13. RECLAMATION AND CLOSURE COST OBLIGATIONS

When the Company exhausts or abandons a mining property or an exploration site, it is required to undertake certain reclamation and closure procedures under the terms of the legislation enacted by the Government of Papua New Guinea.

	Year ended December 31, 2017	Period ended December 31, 2016
Balance – beginning of period	$ 2,170,823	$ 2,094,166
Foreign exchange movement	183,500	17,033
Accretion	-	59,624
Balance – end of period	$ 2,354,323	$ 2,170,823

The provision has been measured at the estimated value of future rehabilitation costs and estimated mine life of 10 years. The estimated cash-flows were discounted to present value using a risk-free discount rate of 8.59% (December 31, 2016 – 7.84%).

Periodically the Company reviews the estimate of future costs of the requisite reclamation and closure work required by current legislative standards. The current total estimate for all properties anticipates undiscounted future cash outflows to meet required legislative standards for reclamation and closure work in the amount of $5,594,215. These future cash outflows have been discounted at the risk-free interest rate considered applicable in Papua New Guinea where the Company's properties are located.

14. SHARE CAPITAL AND RESERVES

Authorized share capital

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

Issued share capital

As at December 31, 2017, the Company had 161,746,910 common shares and 5,000,000 preferred shares issued and outstanding.

Share issuances

During the year ended December 31, 2017, the Company:

a) Completed a brokered and non-brokered private placement by issuing 20,693,250 units at a price of CAD$0.80 per unit for gross proceeds of CAD$16,554,600. Each unit consisted of one common share and one share purchase warrant exercisable for one year at a price of CAD$1.05. In connection with the offering, the Company issued finder's fee warrants with a fair value of $236,351 with the same terms as above and paid cash of $915,150.

b) Completed a non-brokered private placement by issuing 13,333,333 units at a price of CAD$0.75 per unit for gross proceeds of CAD$10,000,000. Each unit consisted of one common share and one share purchase warrant exercisable for one year at a price of CAD$1.00. In connection with the offering, the Company paid finder's fees of 1,053,333 shares, 1,053,333 warrants with the same terms as above and paid cash of $26,284.

(Presented in United States Dollars)

14. SHARE CAPITAL AND RESERVES (cont'd…)

Share issuances (cont'd…)

During the period ended December 31, 2016, the Company:

a) Exercised its right to trigger the early exercise clause (Note 12) on the 10,000,000 warrants exercisable at CAD$0.75 and received CAD$7,500,000; and

b) Issued 9,503,662 common shares of the Company upon the conversion of 5,000,000 preferred shares by the preferred shareholders.

Stock options and warrants

Stock option and warrant transactions are summarized as follows:

	Warrants			Stock options		
	Number		Weighted Average Exercise Price (CAD)	Number		Weighted Average Exercise Price (CAD)
Outstanding, August 31, 2016	33,255,576	$	0.69	7,285,000	$	0.47
Granted / Issued	-		-	3,265,000	$	1.00
Exercised	(11,641,821)		0.71	-		-
Outstanding, December 31, 2016	21,613,755	$	0.93	10,550,000	$	0.63
Granted / Issued	32,254,326		1.03	3,520,000		0.65
Forfeited	-		-	(67,000)		1.00
Expired	(14,465,688)		1.28	-		-
Exercised	(7,148,067)		0.50	(92,400)		0.45
Outstanding, December 31, 2017	32,254,326	$	1.03	13,910,600	$	0.64
Number currently exercisable	32,254,326	$	1.03	10,497,933	$	0.60

Stock options outstanding

The following incentive stock options were outstanding at December 31, 2017:

Number		Exercise price (CAD)	Expiry date
7,092,600	$	0.45	May 20, 2021
100,000		1.93	July 29, 2021
3,198,000		1.00	December 5, 2021
3,220,000		0.65	October 23, 2022
300,000		0.65	November 28, 2022

(Presented in United States Dollars)

14. SHARE CAPITAL AND RESERVES (cont'd…)

Warrants outstanding

The following incentive warrants were outstanding at December 31, 2017:

Number	Exercise price (CAD)	Expiry date
14,386,666	$ 1.00	March 21, 2018*
17,867,660	1.05	June 27, 2018

* Expired subsequent to year-end.

Share-based payments

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the plan the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant.

The following weighted average assumptions were used for the valuation of stock options:

	December 31, 2017	December 31, 2016
Risk-free interest rate	1.00%	0.50%
Expected life of options	4.5 years	4 years
Annualized volatility	67.29%	89.23%
Dividend rate	0.00%	0.00%
Forfeiture rate	0.00%	0.00%

15. 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.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd…)

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 December 31, 2017, the Company had a cash and cash equivalents balance of $1,159,538 (December 31, 2016 - $4,291,697) to settle current liabilities of $14,614,988 (December 31, 2016 - $10,532,282). 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. See Note 1.

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 December 31, 2017, 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.

(Presented in United States Dollars)

16. CAPITAL MANAGEMENT

The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the development of acquired Kainantu mine. Capital is comprised of the Company's shareholders' equity. 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 intends to continue to assess new resource properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments. There can be no assurance that adequate additional financing will be available on terms acceptable to the Company or at all which could have a material adverse impact on the Company's financial condition and results of operations and ability to continue as a going concern.

17. SEGMENTED INFORMATION

The Company's operations are in one segment, the development of gold mining activities. The Company's development activities are all located in Papua New Guinea, with its head office function in Canada. All of the Company's capital assets, including property, plant and equipment, and exploration and evaluation assets are located in Papua New Guinea.

Year ended December 31, 2017	Australia	Papua New Guinea	Canada	Total
Net loss	$ 347,385	$ 2,456,137	$ 9,265,515	$ 12,069,037

Four month period ended December 31, 2016	Papua New Guinea	Canada	Total
Net loss	$ 4,378,331	$ (284,227)	$ 4,094,104

Year ended August 31, 2016	Papua New Guinea	Canada	Total
Net loss	$ 5,308,511	$ 10,063,918	$ 15,372,429

(Presented in United States Dollars)

18. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended December 31, 2017, the Company:

a) Issued finder warrants with a fair value of $368,288 as share issuance costs;

b) Capitalized share-based payments of $633,285 to mineral properties under development; and

c) Transferred 3,675 gold credits to CRH as part of the GPA (Note 11).

During the period ended December 31, 2016, the Company's preferred shares with a value of $1,018,876 were converted in to common shares.

19. INCOME TAXES

A reconciliation of income taxes (recovery) at statutory rates of Canada and Papua New Guinea with the reported taxes for the year ended December 31, 2017 and the period ended December 31, 2016 is as follows:

	December 31, 2017	December 31, 2016
Loss for the period	$ (12,069,037)	$ (4,094,104)
Statutory tax rate	26%	26%
Expected income tax (recovery)	$ (3,138,000)	$ (1,064,000)
Foreign tax rate difference	1,398,000	(754,000)
Unused tax assets	1,672,000	1,581,000
Permanent differences	68,000	237,000
Income tax expenses (recovery)	$ -	$ -

Tax attributes are subject to review, and potential adjustment, by tax authorities.

The significant components of the company's unrecognized temporary differences and tax losses are as follows:

	December 31, 2017	December 31 31, 2016
Unused tax losses in Papua New Guinea	$ 87,338,000	$ 78,072,000
Unused tax losses in Canada	$ 1,966,000	$ 1,403,000

20. SUBSEQUENT EVENTS

Subsequent to December 31, 2017, the Company:

a) Sold gold concentrate of $14,838,618, subject to final review of material; and

b) Completed a private placement by issuing 14,444,500 units at a price of CAD$0.45 per unit from gross proceeds of CAD$6,500,025. Each unit consisted of one common share and one-half of one common share purchase warrant, which each warrant entitling the holder to purchase one common share at a price of CAD$0.65 for 18 months from closing.