CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2016

(Expressed in thousands of US dollars)

The accompanying notes form an integral part of these consolidated financial statements

pwc

Independent Auditors' Report

To the Shareholders of
Orsu Metals Corporation

We have audited the accompanying consolidated financial statements of Orsu Metals Corporation and its subsidiaries, which comprise the Consolidated Statements of Financial Position as at 31 December 2016 and 31 December 2015 and the Consolidated Statements of Loss and Comprehensive Loss, Consolidated Statements of Cash Flows and Consolidated Statements of Changes in Equity for the years then ended, 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.

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Orsu Metals Corporation and its subsidiaries as at 31 December 2016 as at and 31 December 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

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Material uncertainty regarding continuation as a going concern

Emphasis of Matter

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

This condition indicates the existence of material uncertainties that may cast significant doubt about the Group's ability to continue as a going concern. The financial statements do not include the adjustments that would result if the Group were unable to continue as a going concern.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, Embankment Place
United Kingdom
28 April 2017

ORSU METALS CORPORATION
Consolidated Statements of Financial Position
(Expressed in thousands of US dollars)

	Note	December 31, 2016 $	December 31, 2015 $
ASSETS			
Current			
Cash	*4*	2,350	4,697
Receivables and prepaid expenses	*5*	75	238
Assets held for sale	*6*	8,215	-
		10,640	4,935
Property, plant and equipment	*7*	4	8,287
Long-term receivable	*9*	-	88
		10,644	13,310
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Trade and other payables	*10*	229	436
Liabilities held for sale	*6*	36	-
Liabilities of discontinued operation	*11*	-	475
Lease obligations	*12*	-	171
Share warranty liability	*13*	-	5
		265	1,087
Shareholders' equity			
Share capital	*14*	382,576	382,576
Reserves	*14*	34,261	34,261
Non-controlling interest		(823)	(727)
Deficit		(405,635)	(403,887)
		10,379	12,223
		10,644	13,310

Nature of operations and going concern	*1*
Subsequent events	*6, 8, & 20*

These consolidated financial statements were approved for issue by the Board of Directors on April 28, 2017.

They are signed on the Company's behalf by:

"Mark Corra"
Mark Corra, Director

"Alexander Yakubchuk"
Alexander Yakubchuk, Director

ORSU METALS CORPORATION
Consolidated Statements of Loss and Comprehensive Loss
(Expressed in thousands of US dollars)

	Note	Year ended December 31, 2016 $	2015 $
EXPENSES			
Administration		310	1,207
Depreciation		6	96
Professional fees		307	495
Salaries and benefits		1,170	1,239
Share-based compensation	*14*	-	100
Transfer agent and regulatory fees		91	45
		(1,884)	(3,182)
OTHER INCOME (EXPENSES)			
Loss from assets held for sale	*6*	(586)	(1,268)
Non-refundable deposit	*6*	100	-
Advance for exploration on proposed acquisition	*8*	(130)	-
Impact of currency devaluation of Kazakh Tenge	*9*	-	(491)
Onerous provision release	*12*	171	338
Gain on share warrant liability	*13*	5	41
Interest income	*15*	15	78
		(425)	(1,302)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(2,309)	(4,484)
DISCONTINUED OPERATION			
Loss from discontinued operation	*11*	(4)	(84)
Gain on disposal of discontinued operation	*11*	469	-
Impairment of discontinued operation	*11*	-	(4,392)
NET INCOME (LOSS) FOR THE YEAR FROM DISCONTINUED OPERATION		465	(4,476)
COMPREHENSIVE LOSS FOR THE YEAR		(1,844)	(8,960)
NET LOSS ATTRIBUTABLE TO ORSU SHAREHOLDERS			
Loss from continuing operations		(2,213)	(4,326)
Net income (loss) from discontinued operation		465	(4,476)
		(1,748)	(8,802)
NET LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST			
Loss from continuing operations		(96)	(158)
Loss from discontinued operation		-	-
		(96)	(158)
Basic and diluted loss per common share from continuing operations		(0.01)	(0.02)
Basic and diluted income (loss) per common share from discontinued operation		0.00	(0.02)
Weighted average number of common shares outstanding		182,696,049	182,696,049

The accompanying notes form an integral part of these consolidated financial statements

ORSU METALS CORPORATION
Consolidated Statements of Cash Flows
(Expressed in thousands of US dollars)

	Year ended December 31,	
	2016	**2015**
	$	**$**
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Loss for the year	(1,844)	(8,960)
Less:		
Loss from discontinued operation	4	84
Gain on disposal of discontinued operation	(469)	-
Impairment of discontinued operation	-	4,392
Loss for the year from continuing operations	(2,309)	(4,484)
Items not affecting cash:		
Depreciation	6	96
Share-based compensation	-	100
Impairment of assets held for sale	258	752
Impact of currency devaluation of Kazakh Tenge	-	491
Onerous provision release	(171)	(338)
Gain on share warrant liability	(5)	(41)
Change in non-cash working capital items:		
Receivables and prepaid expenses	142	755
Long-term receivable	88	(5)
Trade and other payables	(177)	(53)
	(2,168)	(2,727)
INVESTING ACTIVITIES:		
Property, plant and equipment	(162)	(99)
	(162)	(99)
CASH, BEGINNING OF THE YEAR	4,697	7,607
DECREASE IN CASH FOR THE YEAR	(2,330)	(2,826)
CASH USED FOR DISCONTINUED OPERATION	(4)	(84)
CASH, HELD FOR SALE	(13)	-
CASH, END OF THE YEAR	2,350	4,697
Supplemental cash flow information		
Cash paid for interest	-	-
Cash paid for income taxes	-	-

ORSU METALS CORPORATION
Consolidated Statements of Changes in Equity
(Expressed in thousands of US dollars)

	Number of shares	Share capital $	Reserves $	Non-controlling interest $	Deficit $	Shareholders' equity $
Balance, December 31, 2014	182,696,049	382,576	34,161	(569)	(395,085)	21,083
Share-based compensation	-	-	100	-	-	100
Comprehensive loss for the year	-	-	-	(158)	(8,802)	(8,960)
Balance, December 31, 2015	182,696,049	382,576	34,261	(727)	(403,887)	12,223

	Number of shares	Share capital $	Reserves $	Non-controlling interest $	Deficit $	Shareholders' equity $
Balance, December 31, 2015	182,696,049	382,576	34,261	(727)	(403,887)	12,223
Comprehensive loss for the year	-	-	-	(96)	(1,748)	(1,844)
Balance, December 31, 2016	182,696,049	382,576	34,261	(823)	(405,635)	10,379

The accompanying notes form an integral part of these consolidated financial statements

1. NATURE OF OPERATIONS AND GOING CONCERN

Orsu Metals Corporation ("Orsu" or the "Company") is a publicly-traded company incorporated in the British Virgin Islands. Until December 31, 2016, the Company was domiciled in the United Kingdom. The Company's shares are listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol OSU. Prior to February 1, 2017, the Company's shares traded on the Toronto Stock Exchange and prior to May 11, 2016, the Company shares also traded on AIM, both under the same symbol. The corporate office of the Company is located at Unit 1 - 15782 Marine Drive, White Rock, B.C., Canada, V4B 1E6. Until December 31, 2016, the Company's corporate office was located in London, United Kingdom.

The Company has been primarily engaged in the exploration and development of mineral properties in Kazakhstan. In April 2016, the Company entered into an agreement to sell its 94.75% interest in the Karchiga project located in Kazakhstan. However in April 2017, the sale of this project did not proceed (Note 6).

In September 2016, the Company entered into an exclusive and binding heads of agreement which was superseded by a share purchase agreement in January 2017 for the acquisition of the Sergeevskoe gold project located in eastern Russia. This transaction has not yet closed (Note 8).

These 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 in the foreseeable future. As at December 31, 2016, the Company had working capital of $2,195,432. Management estimates that these funds will provide the Company with sufficient financial resources to carry out currently planned exploration and operations through to December 31, 2017. Beyond December 31, 2017, the Company will need to seek additional sources of financing to carry on future operations. While 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 acceptable to the Company. These material uncertainties may cast significant doubt upon the Company's ability to continue as a going concern.

These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate.

2. BASIS OF PRESENTATION

Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of measurement

These consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value. In addition these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

2. BASIS OF PRESENTATION (continued)

Functional and presentation currency

These consolidated financial statements are presented in United States ("US") dollars, which is the parent company's functional currency as well as the functional currency of the Company's subsidiaries.

Use of accounting estimates, judgments and assumptions

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

<u>Carrying value and recoverability of property, plant and equipment</u>

In relation to the property, plant and equipment the Company followed guidance under IAS 36, "Impairment of assets", and applied significant judgment to determine whether impairment was required as at December 31, 2016. In concluding its judgment, the Company evaluated the market capitalisation of the Company as at December 31, 2016, current, and expectations of future, copper prices, estimates of the net present value of the project, the potential access to both debt and equity financing to fund the future development of the project, potential realisable value of the Karchiga Project and the Company's ability to continue to fund the project until such financing for developing the project is achieved.

<u>Recovery of deferred tax assets</u>

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

The Company has not recorded any deferred tax assets.

2. BASIS OF PRESENTATION (continued)

Use of accounting estimates, judgments and assumptions (continued)

(ii) Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

<u>Determination of functional currency</u>

The functional currency for each of the Company's subsidiaries is the currency of the primary economic environment in which the entity operates. Management has determined that the functional currency of the parent company as well as the functional currency of the Company's subsidiaries is the US dollar.

<u>Classification of assets held for sale</u>

The Company classified the assets and liabilities of both the Karchiga Project and the Kogodai Project as "Assets held for sale" and "Liabilities held for sale" on the statement of financial position as at December 31, 2016 and reported the related losses as "Loss from assets held for sale" in the consolidated statement of loss and comprehensive loss for the years ended December 31, 2016 and 2015.

<u>Discontinued operation</u>

In relation to the discontinued operation, the Company followed guidance under IFRS 5, "Non-current assets held for sale and discontinued operations", and IAS 36, "Impairment of assets", and applied significant judgment to conclude that: the Akdjol-Tokhtazan project be treated as a discontinued operation as at December 31, 2015; an impairment against the carrying value of assets was recorded; and following the expiry of the exclusivity agreement with the potential buyers all unsettled liabilities were provided for as at December 31, 2015. In concluding its judgment, the Company evaluated the duration of time for which the disposal group had been classified as an asset held for sale, the good standing of the exploration licences held by the Akdjol-Tokhtazan Project, the continued commitment of the Company to actively sell the asset and whether a sale was highly probable based on the continued interest from interested parties to acquire the Akdjol-Tokhtazan Project. During the year ended December 31, 2016, the Company sold the Akdjol-Tokhtazan project (Note 11).

<u>Long-term receivable</u>

Long-term receivable includes historical value added tax ("VAT") expenditures incurred on the Karchiga Project which, under current Kazakh tax law, will be recoverable against future VAT liabilities arising in the event of the Karchiga Project being constructed and moving into production. In determining the carrying value of the VAT recoverable amounts as at December 31, 2016 and 2015, the Company assessed the future recoverability of the VAT amounts. This included considering the potential prospect of the Kazakh Government replacing VAT with sales tax, the ability of the Company to secure the financing required for the Karchiga Project, the future impact of any alternative options for the Karchiga Project and the timing of future recoveries of VAT amounts. During the year ended December 31, 2016, the Company wrote-off all VAT recoverable amounts due to the uncertainty of collection (Note 9).

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

3. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

These consolidated financial statements include the accounts of Orsu and its subsidiaries, from the date control was acquired. Control exists when the Company possesses power over an investee, has exposure to variable returns from the investee and has the ability to use its power over the investee to affect its returns. All inter-company balances and transactions, and any income and expenses arising from inter-company transactions, are eliminated on consolidation.

For partially owned subsidiaries, the interest attributable to non-controlling shareholders is reflected in non-controlling interest. Adjustments to non-controlling interest are accounted for as transactions with owners and adjustments that do not involve the loss of control are based on a proportionate amount of the net assets of the subsidiary.

Name of subsidiary	Place of incorporation	Ownership interest at December 31, 2016	Principal activity
European Minerals (UK) Limited	UK	100%	Dormant
Lero Gold Corp.	Canada	100%	Holding company
Eildon Enterprises Limited	BVI	100%	Holding company
GRK MLD LLP	Kazakhstan	94.75%	Operating mineral exploration company
Tournon Finance Limited (1)	BVI	0%	Dormant holding company
Oriel In Kyrgyzstan LLC (1)	Kyrgyzstan	0%	Dormant mineral exploration company
Harssin Management B.V. (2)	Netherlands	63.75%	Dormant holding company
Orsu Metals Kazakhstan (2)	Kazakhstan	63.75%	Dormant holding company
Kogodai LLP (2)	Kazakhstan	51%	Dormant mineral exploration company
Almaty Exploration Limited	BVI	100%	Dormant holding company
Bauer Investments Corporation	BVI	100%	Dormant holding company

(1) sold in July 2016 (Note 11)
(2) sold in March 2017 (Note 6)

Foreign currency translation

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the exchange rate on the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in profit or loss.

On consolidation, the assets and liabilities are translated into US dollars using the exchange rate at the reporting date, while the operations and cash flows are translated into US dollars using the average rates of exchange for the period. Exchange adjustments arising when the non-monetary assets are translated into US dollars are recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated depreciation. Repairs and maintenance expenditures are charged to operations. Major improvements and replacements that extend the useful life of an asset are capitalised. Depreciation is charged on a straight line basis as below:

Leasehold improvements	10 years
Vehicles	4 to 10 years
Other assets	3 to 10 years

Development costs

Costs directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management are capitalised in accordance with IAS 16 Property Plant and Equipment. Assets under construction are not depreciated until the asset is available for use. Under IAS 16 costs are capitalised during the development phase, defined as being from the date that an economic study is completed to the date the asset is deemed to be available for use (or the "development costs") and are those that can be directly attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by the Company. Under IAS 16, these development costs are capitalised, as they meet the criteria for the capitalisation for a qualifying asset.

Exploration and evaluation assets and expenditures

Mineral property costs represent capitalised expenditures related to the acquisition, exploration and evaluation of mineral properties and related plant and equipment.

Mineral properties

Mineral properties, including exploration assets, acquired are recognised as assets at fair value, less adjustments which arise from subsequent impairment reviews.

Exploration and evaluation costs

Exploration and evaluation costs relating to properties for which there is insufficient evidence of economically recoverable mineralization are expensed in the period incurred. Exploration costs relating to properties for which economically recoverable reserves are believed to exist are capitalised until the project to which they relate is sold, abandoned, placed into production or becomes impaired.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

The Company reviews and evaluates its mineral property and development assets for impairment when events or changes in circumstances indicate that the carrying amounts may not be recoverable. Under IFRS 6, "Exploration for and evaluation of mineral resources", the Company initially assesses where facts and circumstances indicate that the carrying amount of a mineral property may exceed its fair value. Facts and circumstances which indicate that the Company should test for impairment include expiry of the exploration licence where renewal is not expected, substantive expenditure not planned for the foreseeable future, poor resource results or data which adequately shows that it is not economically viable. When facts and circumstance indicate that the carrying amount exceeds the recoverable amount, the Company will then estimate net future cash flows and write down any impairment.

Where estimates of future net cash flows are not available and where other conditions suggest impairment, management assesses whether the carrying value can be recovered. If impairment is identified, assets are grouped for impairment assessment purposes at the lowest level at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets (the cash generating unit "CGU"). The recoverable amount of an asset or CGU is the greater of its fair value less costs to disposal and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. The Company evaluates impairment for potential reversals when events or circumstances warrant such consideration.

Financial assets

Financial assets and liabilities are recognised when the Company becomes a contractual party to a financial instrument. Financial assets are derecognised when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all the risk and rewards of ownership.

(i) Financial assets at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as FVTPL unless they are designed as effective hedges. Assets in this category include cash.

Financial assets at FVTPL are initially recognized, and subsequently carried, at fair value with changes recognized in profit or loss. Attributable transaction costs are recognized in profit or loss when incurred.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months or those that are expected to be settled after 12 months from the end of the reporting period, which are classified as non-current assets. Assets in this category include receivables.

Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs and subsequently carried at amortized cost using the effective interest method, except for short-term receivables when the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(ii) Loans and receivables (continued)

The effective interest method is used to determine the amortized cost of loans and receivables and to allocate interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period.

(iii) Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each reporting period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by any impairment loss. The carrying amount of receivables is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses were recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(iv) De-recognition of financial assets

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all of the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the group entities are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

At the end of each reporting period subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise.

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

Certain financial liabilities and contracts may contain both a derivative and non-derivative host component (referred to as hybrid instruments). In such cases the derivative component is termed an embedded derivative. An embedded derivative is only separated and reported at fair value through profit and loss when its risks and characteristics are not closely related to the host contracts, its terms meet the definition of a stand-alone derivative and the financial liability or combined contract is not recorded at fair value through profit and loss.

The Company has classified trade and other payables as other financial liabilities.

Derivative financial instruments

Derivative instruments, including embedded derivatives, are recorded on the balance sheet at their fair value. Unrealized gains and losses on derivatives are recorded in the consolidated statement of loss and comprehensive loss for the year. Fair values for derivative instruments are determined using valuation techniques, using assumptions based on market conditions existing at the balance sheet date. Derivatives embedded in non-derivative contracts are recognised separately unless they are closely related to the host contract.

The Company's derivative instruments in relation to share subscriptions consist of derivative liabilities of share purchase warrants (Note 13).

Share capital

Common shares issued are classified as equity. Incremental costs directly attributable to the issuance of common shares are recognised as a deduction from equity.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based compensation

The stock option plan allows Company directors, employees, and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based compensation expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from share-based reserve to share capital.

The fair value is measured at grant date and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions.

Earnings (loss) per share

Earnings (loss) per share are calculated based on the weighted average number of common shares issued and outstanding during the year. Diluted earnings (loss) per common share are calculated using the treasury stock method for outstanding stock options and warrants. Under the treasury stock method, incremental common shares issuable upon the exercise of stock options and warrants are excluded from the computation if their effect is anti-dilutive. In periods in which a loss is incurred, the calculation would be anti-dilutive, in which case basic and diluted loss per share are the same.

Income taxes

Income tax

The Company's income tax is comprised of current and deferred tax. The Company follows the liability method of accounting for income taxes. Under this method, current income taxes are recognised as the estimated income taxes payable for the current period using tax rates enacted, or substantially enacted, at the end of the reporting period. Future income tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income taxes assets are recognised to the extent that the realization of the related tax benefit through future taxable profits is probable.

Deferred tax assets and liabilities are recognised in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax assets are evaluated and where the Company considers that these are unlikely to be realised, the associated deferred tax asset is not recognised.

Capital gains tax

The Company may potentially incur capital gains tax from the sale of its assets relating to exploration properties or equity investments. Where this is applicable the Company will provide for the capital gains tax liability and recognise this as a tax charge for the year in the consolidated statement of net loss and comprehensive loss in the same year as any disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-current assets held for sale and discontinued operation

In prior years' non-current assets (or disposal groups) were classified as assets held for sale when their carrying amount was to be recovered principally through a sale transaction, a sale was considered highly probable, the Company was committed to a sale and the disposal group was available for sale in its then current condition. The carrying value of the assets held for sale were stated at the lower of carrying amount and fair value less costs to disposal and the results of the assets held for sale were shown separately from continuing operations.

In the event that an asset that had previously been classified as held for sale, no longer met the conditions stated above or the Company elects to no longer maintain or continue operations, at the asset held for sale, then the Company will de-recognise the assets previously classified as held for sale and present the net loss of the asset as a discontinued operation. In addition, the Company will estimate a provision for any outstanding liabilities in relation to the discontinued operation as at the reporting date.

Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current year.

New standards, interpretations and amendments not yet effective

A number of new standards, amendments to standards and interpretations are not yet effective as of December 31, 2016, and have not been applied in preparing these consolidated financial statements.

Effective for annual periods beginning on or after January 1, 2018:

- New standard IFRS 9, Financial Instruments

  IFRS 9 is a new standard on financial instruments that will replace IAS 39, Financial Instruments: Recognition and Measurement. This standard simplifies the current measurement model for financial instruments under IFRS and establishes two measurement categories for financial assets: amortized cost and fair value. The existing IAS 39 categories of loans and receivables, held to maturity investments, and available for sale financial assets will be eliminated.

Effective for annual periods beginning on or after January 1, 2019:

- New standard IFRS 16, Leases

  All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, from the perspective of the lessee, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 Leases and, instead, introduces a single lessee accounting model. When applying that model, a lessee is required to recognize assets and liabilities. A lessor continues to classify its leases as operating leases or finance leases, and accounts for those two types of leases differently.

The Company has not early adopted these new standards and none of these standards are expected to have a material effect on the consolidated financial statements.

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

4. CASH

	December 31, 2016 $	December 31, 2015 $
US dollar denominated deposits held in Canada	2,000	-
Canadian dollar denominated deposits held in Canada	22	-
US dollar denominated deposits held in the UK	232	4,366
Canadian dollar denominated deposits held in the UK	60	40
GBP denominated deposits held in the UK	35	265
GBP denominated deposits held in the Netherlands	1	11
Tenge denominated deposits held in Kazakhstan	-	14
SOM denominated deposits held in Kyrgyzstan	-	1
Total	2,350	4,697

5. RECEIVABLES AND PREPAID EXPENSES

	December 31, 2016 $	December 31, 2015 $
Receivables	47	79
Prepaid expenses	28	159
Total	75	238

6. ASSETS HELD FOR SALE

Included in assets and liabilities held for sale as at December 31, 2016 are the assets and liabilities of the Karchiga and Kogodai Projects, both located in Kazakhstan:

	December 31, 2016 $	December 31, 2015 $
Cash	13	-
Receivables and prepaid expenses	21	-
Property, plant and equipment	8,181	-
Assets held for sale	8,215	-
Trade and other payables	(36)	-
Liabilities held for sale	(36)	-
Net assets held for sale	8,179	-

As at December 31, 2016, the Karchiga Project includes assets of $8,198,000 and liabilities of $17,000 while the Kogodai Project includes assets of $17,000 and liabilities of $19,000.

6. ASSETS HELD FOR SALE (continued)

Karchiga Project, Kazakhstan

The Company's principal and most advanced project is the property comprising a licence area in eastern Kazakhstan containing the copper bearing Karchiga volcanogenic massive sulphide deposit which is part of the Rudny Altai polymetallic belt (the "Karchiga Project"). The Company indirectly holds a 94.75% interest in the Karchiga Project via its 100% interest in Lero Gold Corp. ("Lero") which in turn owns 100% of Eildon Enterprises Limited ("Eildon"), the immediate parent of GRK MLD LLP ("MLD") and the holder of the exploration licence for the Karchiga exploration property.

The Karchiga Project is governed by an exploration and production contract until February 28, 2024 and the Company has obtained approval to commence mineral extraction within the Karchiga exploration licence area for copper as well as approval for the construction of a mining and processing complex within the Karchiga exploration licence area from the relevant Kazakh authority.

From 2012 to early 2016, the Company tried to secure the funding required for the construction of a mine and processing facilities. However, due to the continuing adverse economic environment during this period, the Company was unable to secure the necessary funding required and the Company looked for alternative solutions.

On April 11, 2016, the Company entered into an agreement (as amended) to sell its 94.75% interest in MLD to Karasat Trading FZE ("Karasat"), a company registered in the United Arab Emirates, for $7.75 million ($100,000 non-refundable deposit received in May 2016). The Company obtained shareholder approval for the sale at its annual and special shareholder meeting held on June 23, 2016. On January 25, 2017, the Company conditionally transferred its participation interest in MLD to Karasat and the remainder of the purchase price was to be paid after the registration of the transfer with the Kazakhstan authorities, not later than February 15, 2017. On February 17, 2017, Karasat informed the Company that it was unable to obtain the necessary financing to pay the purchase price and therefore the shares of MLD are in the process of being re-registered to Eildon.

During the year ended December 31, 2015, a review was undertaken to determine whether there was any indication of a trigger that may have led to these assets suffering an impairment loss. Following this review new impairment triggers were identified following the sharp decline in copper prices during 2015, in addition to other indicators of impairment which existed, in particular the market capitalization of the Company being below the value of net assets. As a result, management estimated the fair value for the Karchiga Project to be $8.17 million as at December 31, 2015, resulting in an impairment charge of $752,000 being recorded. In the absence of an active, observable market for projects in Kazakhstan, the estimate of fair value was based on a calculation of the present value of cash flows from the Karchiga Project based on those arrived at in the Karchiga Definitive Feasibility Study Report and after allowing for inflationary increases on certain key costs. The principal assumptions used in assessing fair value were a copper price of $2.25/lb and a discount rate of 20.0%.

During the year ended December 31, 2016, the Company assessed impairment of the Karchiga Project and considered the best indicator of value to be the offer from Karasat of $7.75 million for the Company's 94.75% interest in the shares of MLD. Accordingly, the Company recorded an impairment charge of $258,000.

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

6. ASSETS HELD FOR SALE (continued)

The losses pertaining to the assets held for sale included in the consolidated statement of loss and comprehensive loss for the years ended December 31, 2016 and 2015 are shown below:

	December 31, 2016 $	December 31, 2015 $
Administration expenses	269	344
Exploration and evaluation expenditures	-	160
Foreign exchange	59	12
Impairment	258	752
Loss from assets held for sale	586	1,268

Kogodai Project, Kazakhstan

The Company held an exploration licence for a prospect 70 km northwest of the Karchiga Project (the "Kogodai Project"). The Company held an effective 51% interest in the Kogodai Project through its 63.75% owned subsidiary, Harssin Management B.V. ("Harssin"), which in turn holds a 100% interest in Orsu Metals Kazakhstan, which has a majority 80% interest in Kogodai JV LLP. In March 2017, the Company completed the sale of its effective 51% interest in the Kogodai Project for $10,000 through the sale of the Company's 63.75% interest in Harssin.

7. PROPERTY, PLANT AND EQUIPMENT

	Karchiga project $	Leasehold improvements $	Vehicles $	Other assets $	Total $
Cost					
December 31, 2014	8,826	391	120	444	9,781
Additions	96	-	-	3	99
Impairment	(752)	-	-	-	(752)
December 31, 2015	8,170	391	120	447	9,128
Additions	15	-	-	6	21
Reclassified to assets held for sale	(8,185)	-	(106)	(156)	(8,447)
Write-off	-	(391)	(14)	(291)	(696)
December 31, 2016	-	-	-	6	6
Accumulated depreciation					
December 31, 2014	-	(315)	(66)	(364)	(745)
Depreciation	-	(76)	(5)	(15)	(96)
December 31, 2015	-	(391)	(71)	(379)	(841)
Depreciation	-	-	-	(6)	(6)
Reclassified to assets held for sale	-	-	57	92	149
Write-off	-	391	14	291	696
December 31, 2016	-	-	-	(2)	(2)
Carrying amounts					
December 31, 2015	8,170	-	49	68	8,287
December 31, 2016	-	-	-	4	4

During the year ended December 31, 2016, the Karchiga Project was reclassified as assets held for sale (Note 6).

7. PROPERTY, PLANT AND EQUIPMENT (continued)

During the year ended December 31, 2016, the Company wrote-off fully amortized equipment of $696,000 primarily related to the end of the Company's lease in February 2016 at its former head office in London.

8. PROPOSED ACQUISITION

In September 2016, the Company entered into an exclusive and binding heads of agreement which was superseded by a share purchase agreement ("SPA") in January 2017 for the acquisition of the Sergeevskoe gold project located in eastern Russia. The Sergeevskoe project licence is owned by Sibzoloto Investments Limited ("Sibzoloto"), a Cyprus registered company, which in turn is the sole owner of both LLC GK Alexandrovskoe ("Alexandrovskoe"), holder of the Sergeevskoe licence, and LLC Investco Realty ("Investco"), the owner of a work camp and infrastructure to support the nearby Sergeevskoe project. The shares of Sibzoloto are owned by four arm's length parties ("the Sellers").

On closing, Orsu was to purchase 300 (30%) of the €1 par value shares of Sibzoloto from the Sellers by the issue of 146,605,683 common shares in Orsu and payment of $180,000 cash providing that Orsu had $3 million in cash equivalents at closing. And if the sale of Karchiga completed by June 30, 2017, Orsu was to purchase the remaining 700 (70%) of the shares of Sibzoloto for consideration of €700 and $420,000 cash.

However, the sale of the Karchiga Project did not close (Note 6) as had been expected and the Company did not meet one of the closing conditions of the SPA being the requirement to have $3 million cash equivalents, as defined in the SPA, at closing.

Accordingly, the Company and the Sellers executed an amendment to the SPA to modify the terms to compensate for not meeting this closing condition so that:

1) The payment of the $180,000 at closing be deferred until the earlier of Orsu being funded by equity or the Karchiga sale closing by September 30, 2017 and that the interest rate for this deferred payment be 8% per annum from closing date;

2) The number of shares to be issued for the first 30% will be adjusted to 165,591,520 new common shares of Orsu from 146,605,683 new common shares in Orsu; and

3) If the sale of Karchiga is closed before September 30, 2017 the Sellers will assign the 70% balance of the shares of Sibzoloto to Orsu for the nominal par value consideration. In the event the sale of Karchiga does not close before September 30, 2017, Orsu will then own a 30% participating interest in the shares of Sibzoloto and the Sellers will own a 70% participating interest in the shares of Sibzoloto. Orsu and the Sellers will negotiate the terms of a shareholder's agreement at that time to govern the operations of Sibzoloto and to provide for an option for Orsu to acquire, and the Sellers to sell, the remaining 70% of the shares of Sibzoloto on terms to be negotiated at that time. The prior approval of the TSX-V will be obtained in the event the parties determine that the consideration for the second sale shares will be paid and settled in shares of the Issuer.

The pending acquisition of the Sergeevskoe project remains subject to TSX-V approval.

In anticipation of closing, the Company advanced Sibzoloto $130,000 in October 2016 towards exploration work to advance the Sergeevskoe Project. The Company recorded this advance as an advance for exploration on the statement loss and comprehensive loss for the year ended December 31, 2016. Subsequent to December 31, 2016, the Company advanced Sibzoloto a further $332,871 towards exploration work to advance the Sergeevskoe Project.

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

9. LONG-TERM RECEIVABLE

	December 31, 2016 $	December 31, 2015 $
Balance - beginning	88	832
Additions	2	5
Impact of currency devaluation of Kazakh Tenge	-	(491)
Present value adjustment	-	(258)
Write-off	(90)	-
Balance - ending	-	88

Long-term receivable consists of VAT amounts incurred in relation to exploration and development expenditures in Kazakhstan and are recoverable in the local currency.

During the year ended December 31, 2015, the Company's VAT recoverable amounts:

a) were affected by a devaluation of the Kazakh Tenge because of a decision by the National Bank of Kazakhstan to no longer actively manage the exchange rate between the Kazakh Tenge and US dollar and which resulted in a currency loss of $491,000.

b) included VAT expenditures which are expected to be recoverable against future VAT liabilities in the event of the Karchiga Project being constructed and moving into production. As at December 31, 2015, the Company measured the present value of the future VAT recoverable amounts in relation to the Karchiga Project and recorded a present value adjustment of $258,000.

During the year ended December 31, 2016, the Company wrote-off all VAT recoverable amounts of $90,000 due to the uncertainty of collection.

10. TRADE AND OTHER PAYABLES

	December 31, 2016 $	December 31, 2015 $
Trade and other payables in BVI	$ 202	$ 375
Trade and other payables in Kazakhstan	-	33
Trade and other payables in the UK	12	19
Trade and other payables in the Canada	8	8
Trade and other payables in the Netherlands	1	1
Due to related parties	6	-
Total	$ 229	$ 436

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

11. DISCONTINUED OPERATION

	December 31, 2016 $	December 31, 2015 $
Trade and other payables	-	(475.00)
Liabilities of discontinued operation	-	(475.00)

The Company's exploration interest in Kyrgyzstan consisted of the Akdjol and Tokhtazan exploration licences (the "Akdjol-Tokhtazan Project") located in the Jelal-Abad Oblast, western Kyrgyzstan.

In 2011, the Company determined the Akdjol-Tokhtazan Project to be a non core asset which was made available for sale and determined to have met the criteria to be classified as "held for sale" and thereafter actively sought to sell the Akdjol-Tokhtazan Project to interested parties. In 2015, the Company concluded that it was no longer appropriate to consider a potential sale as highly probable and as a result decided to suspend operations at the Akdjol-Tokhtazan Project. In addition, the Company considered the reliability of estimates of fair value of the Akdjol-Tokhtazan Project and concluded that in the absence of any current offers an impairment charge against the carrying net asset value of the Akdjol-Tokhtazan Project of $4.4 million should be recorded as at December 31, 2015.

On July 14, 2016, the Company's wholly owned subsidiary, Lero entered into a sale and purchase agreement (the "Kyrgyz SPA"), with three arm's length individuals (the "Purchasers"), to sell its 100% interest in Tournon Finance Limited ("Tournon"), which owns 100% of Oriel in Kyrgyzstan LLC ("Oriel"), which in turn holds the Company's interest in its Akdjol-Tokhtazan Project in the Kyrgyz Republic.

In accordance with the terms of the Kyrgyz SPA, the Purchasers agreed to pay a nominal sum of one dollar and assume the existing liabilities of Oriel.

In addition, an existing interest free intercompany loan of $4.19 million with Oriel (the "Oriel Loan") will remain in place and the Purchasers may, within two years of the effective date of the Kyrgyz SPA elect to:

- purchase the Oriel Loan for the sum of $2 million; or
- cancel the Oriel Loan upon the payment by the Purchasers of the sum of $2 million; or
- if the Purchasers do not elect either of such options, the Oriel Loan will become repayable within three years from the commencement of production at an interest rate of LIBOR plus 5%.

In addition, deferred consideration of $2 million is payable by the Purchasers from production revenues over the first two years of production at the Akdjol-Tokhtazan Project at $250,000 per quarter from the commencement of production (the "Deferred Consideration").

The Company assessed that there was no recognised market for the Oriel Loan and the Deferred Consideration and that there is significant uncertainty in relation to the future prospect of the Akdjol-Tokhtazan Project being developed into production and so no reliable estimate of fair value could be estimated. Thus, the Company has not recognised the Oriel Loan or the Deferred Consideration as at December 31, 2016.

Lero had the right to assign its rights and obligations to the Oriel Loan and the Deferred Consideration to a third party and accordingly assigned its rights and obligations to Orsu on December 19, 2016.

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

11. DISCONTINUED OPERATION (continued)

The net gain on disposal for the year ended December 31, 2016 is as set below:

	$
Transaction costs	6
Trade and other payables	(475)
Gain on disposal of discontinued operation	(469)

The losses pertaining to the discontinued operation included in the consolidated statement of loss and comprehensive loss for the years ended December 31, 2016 and 2015 are shown below:

	December 31, 2016 $	December 31, 2015 $
Administration expenses	4	271
Foreign exchange	-	(11)
Exploration and evaluation expenditures	-	224
Deferred income recognized	-	(400)
Loss from discontinued operation	4	84

12. LEASE OBLIGATIONS

	December 31, 2016 $	December 31, 2015 $
Balance - beginning	171.00	-
Reclassification from other liabilities	-	509.00
Additions	-	8.00
Released	(171.00)	(346.00)
Balance - ending	-	171.00

The Company's lease obligations were in relation to its former London head office which expired February 2016. The Company's lease obligations consisted of:

a) A dilapidation provision of $120,000 in relation to the termination of the lease in February 2016 under the terms of which the Company was required to make reparations to the dilapidations to these offices before their return to the landlord; and
b) A provision for an onerous lease of $389,000 in relation to a sublease agreement, dated June 1, 2012, with Equus Petroleum plc ("Equus") to partially sub-let office space at these offices for a period up to February 2016. Under the terms of this sub-let agreement, Equus vacated the premises effective January 31, 2015 and the Company was unable to secure alternative arrangements to cover the cost of the office premises. See note 15 for subsequent arrangement.

During the year ended December 31, 2015, these obligations were re-classified from other liabilities.

In April 2016, the Company received $88,000 (£72,000) as a net refund of its deposit, after deducting an agreed final settlement in relation to the dilapidations of $83,000 (£68,000) and thus released the outstanding provision.

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

13. SHARE WARRANT LIABILITY

	December 31, 2016 $	December 31, 2015 $
Balance - beginning	5	46
Fair value re-measurement	-	(41)
Expiry of warrants	(5)	-
Balance - ending	-	5

In July 2013, the Company completed a subscription with a wholly owned subsidiary of Gold Fields Limited ("Gold Fields" or collectively with certain of its subsidiaries, the "Gold Fields Group") for 25 million units of the Company (each a "Unit") at a price of CAD$0.40 per Unit for gross proceeds of CAD$10 million (the "Subscription"), with each Unit consisting of one common share of the Company (a "Common Share") and one half of one common share purchase warrant (each whole warrant, a "Warrant"), each Warrant being exercisable for a period of three years from the date of issue to acquire one Common Share at a price of CAD$0.50. Following the completion of the Subscription the Company received in cash the gross proceeds from the Subscription of CAD$10 million, CAD$9.6 million plus a further CAD$35,446 of accumulated interest. The Company subsequently accounted for the Warrants issued to Gold Fields as a derivative instrument.

During the year ended December 31, 2015, the Company re-measured the fair value of the share warrant liability using the Black-Scholes pricing model with the following assumptions: a stock price of CAD$0.02; a risk free interest rate of 0.47%; an expected volatility of 191%; an expected life of 0.57 years; and an exchange rate of 1.389.

The Warrants expired on July 25, 2016 and accordingly the Company recorded a gain on share warrant liability of $5,000.

14. SHARE CAPITAL AND RESERVES

a) Authorized

The Company is authorized to issue 100,000,000,000 common shares without par value.

b) Issued and Outstanding

As at December 31, 2016 the company had 182,696,049 common shares issued and outstanding (2015 – 182,696,049). A summary of changes in share capital and reserves is contained on the consolidated statements of changes in equity for the year ended December 31, 2016 and 2015.

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

14. SHARE CAPITAL AND RESERVES (continued)

c) Share Purchase Warrants

The continuity of share purchase warrants for the year ended December 31, 2016 is as follows:

Expiry date	*Exercise price CAD$*	Balance, December 31, 2015	Granted	Exercised	Expired	Balance, December 31, 2016
July 25, 2016	*$ 0.50*	12,500	-	-	(12,500)	-
		12,500	-	-	(12,500)	-
Weighted average exercise price - CAD$		$ 0.50	$ -	$ -	$ 0.50	$ -

The continuity of share purchase warrants for the year ended December 31, 2015 is as follows:

Expiry date	*Exercise price CAD$*	Balance, December 31, 2014	Granted	Exercised	Expired	Balance, December 31, 2015
July 25, 2016	*$ 0.50*	12,500	-	-	-	12,500
		12,500	-	-	-	12,500
Weighted average exercise price - CAD$		$ 0.50	$ -	$ -	$ -	$ 0.50

d) Options

On January 4, 2017, the Company cancelled its 2015 stock option plan and replaced it with the 2017 stock option incentive plan (the “Plan”). The Plan was approved by the Board of Directors of the Company but is subject to approval by the shareholders of the Company and acceptance by the TSX-V and any other regulatory authority having jurisdiction over the securities of the Company, with such changes to the Plan as may be required by the TSX-V from time to time.

The Company’s Plan is a rolling stock option plan applicable to directors, employees and consultants, under which the total outstanding stock options are limited to 10% of the outstanding common shares of the Company at any one time. The exercise price of an option shall not be less than the discounted market price at the time of granting as prescribed by the policies of the TSX-V. The maximum term of stock options is ten years from the grant date. Vesting terms are at the discretion of the directors.

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

14. SHARE CAPITAL AND RESERVES (continued)

d) Options (continued)

The continuity of stock options for the year ended December 31, 2016 is as follows:

Expiry date	*Exercise price CAD$*	Balance, December 31, 2015	Granted	Exercised	Expired	Balance, December 31, 2016
February 22, 2016	*$ 0.30*	75	-	-	(75)	-
September 2, 2020	*$ 0.02*	15,700	-	-	-	15,700
		15,700	-	-	-	15,700
Weighted average exercise price - CAD$		$ 0.02	$ -	$ -	$ -	$ 0.02

As at December 31, 2016, all the stock options were exercisable.

The continuity of stock options for the year ended December 31, 2015 is as follows:

Expiry date	*Exercise price CAD$*	Balance, December 31, 2014	Granted	Exercised	Expired	Balance, December 31, 2015
July 11, 2015	*$ 8.30*	2,255	-	-	(2,255)	-
September 25, 2015	*$ 2.40*	30	-	-	(30)	-
April 10, 2015	*$ 0.25*	9,750	-	-	(9,750)	-
December 7, 2015	*$ 0.30*	500	-	-	(500)	-
February 22, 2016	*$ 0.30*	75	-	-	-	75
September 2, 2020	*$ 0.02*	-	15,700	-	-	15,700
		12,610	15,700	-	(12,535)	15,775
Weighted average exercise price - CAD$		$ 1.70	$ 0.02	$ -	$ 1.71	$ 0.02

e) Share-based compensation

During the year ended December 31, 2016, the Company recorded share-based compensation of $Nil (2015 - $100,000).

On September 2, 2015, the Company granted 15,700,000 stock options to directors, officers, employees, and consultants at a fair value of $100,000 or $0.01 per option. The options vested immediately upon grant. The fair value of the options granted was determined using the Black-Scholes pricing model with the following assumptions: a risk free interest rate of 0.90%; an expected volatility of 40%; an expected life of 3 years; a forfeiture rate of 8%; and an expected dividend of zero.

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

15. RELATED PARTY TRANSACTIONS AND BALANCES

Except as disclosed elsewhere in these consolidated financial statements, the Company incurred the following related party transactions.

Key management includes members of the Board of Directors, the Chief Financial Officer and the Corporate Secretary. The aggregate compensation paid or accrued to key management personnel, during the years ended December 31, 2016 and 2015 were as follows:

		Year ended December 31,	
		2016	**2015**
		$	**$**
Salaries and benefits			
Sergey Kurzin	Director	211	271
Alexander Yakubchuk	Director	194	254
Mark Corra	Director	24	37
David Rhodes	Director	24	37
Massimo Carello	Director	30	37
Timothy Hanford	Director	-	14
Doris Meyer & Dan O'Brien	Officers	30	-
Kevin Denham	Officer	198	207
Christopher Power	Officer	-	67
Share-based compensation	Directors & Officers	-	83
		711	1,007

Equus Petroleum plc

The Company entered into a sublease agreement, dated June 1, 2012, with Equus, who were a related party until February 2016, to partially sub-let office space from the Company for a period up to February 2016. However, effective January 31, 2015 Equus vacated the premises and the Company was unable to secure alternative arrangements to cover the cost of the office premises. As at December 31, 2015, all amounts owing from Equus were written down to $Nil as the Company's accounting policy is to make a full provision for receivables outstanding for greater than 12 months.

However by letter agreement dated December 8, 2016, the Company and Equus agreed that the amount owing to the Company by Equus as at July 28, 2016 was principal of £222,838 and accrued interest of £7,707 totalling £230,545. Interest accrues on the principal at the rate of 4.5% per annum. Further, it was acknowledged that Equus had paid the Company £60,000 from September to December 2016 towards principal and interest and effective January 7, 2017 the monthly payments were to have increased from £15,000 to £30,000. However, Equus requested and the Company agreed to payments of £20,000 per month and in consideration for these reduced payments an interest rate of 5.0% per annum.

As at December 31, 2016, the amount due from Equus totalled $214,716 (£174,543) being $213,846 (£173,836) principal and $870 (£707) interest. The Company has not recorded this as a receivable as at December 31, 2016 as the Company's accounting policy is to record payments as credits to administration when received. During the year ended December 31, 2016, the Company recorded interest income of $14,912 (£11,705).

Subsequent to December 31, 2016, Equus paid the Company a further £80,000 as contemplated above.

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

16. SEGMENTED INFORMATION

IFRS 8 "Operating Segments" requires operating segments to be identified on the basis of internal reports that are regularly reviewed by the chief operating decision-maker to allocate resources to the segments and to assess their performance.

The chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments, has been defined as the CEO.

The Company operates in a single segment, being mineral exploration and development.

With the exception of the cash disclosed in Note 4, all of the Company's significant assets are held in Kazakhstan.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial Instruments

Financial instruments are classified into one of the following categories: FVTPL; held-to-maturity investments; loans and receivables; available-for-sale; or other liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

Financial Instrument	Category	**December 31, 2016 $**	**December 31, 2015 $**
Cash	FVTPL	**2,350**	**4,697**
Receivables	Loans and receivables	**47**	**79**
Trade and other payables	Other liabilities	**229**	**436**

The Company's financial instruments recorded at fair value require disclosure about how the fair value was determined based on significant levels of inputs described in the following hierarchy:

Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and value to provide pricing information on an ongoing basis.

Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the market place.

Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

The recorded amounts for receivables and trade and other payables approximate their fair value due to their short-term nature. The fair value of cash was determined based on Level 1 of the fair value hierarchy.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Risk Management

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

Credit Risk

Credit risk is the risk of potential loss to the Company if a 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 receivables. The Company limits the exposure to credit risk in its cash by only investing its cash with high credit quality financial institutions in business and savings accounts and guaranteed investment certificates which are available on demand by the Company for its programs. The Company's receivables primarily include balances receivable from government agencies. The Company is exposed to some risk on amounts due from these government agencies however to date the Company has been successful on collecting on its receivables.

Liquidity Risk

Liquidity risk is the risk that the Company will not have the resources to meet its obligations as they fall due. The Company manages this risk by closely monitoring cash forecasts and managing resources to ensure that there is sufficient capital in order to meet short-term business requirements. The Company's cash is primarily on deposit in Canadian business accounts or guaranteed investment certificates which are available on demand.

Interest Rate Risk

The Company is exposed to interest rate risk to the extent that its cash balances bear variable rates of interest. The interest rate risk on cash is not considered significant.

Foreign Currency Risk

The Company's functional and presentation currency is the US dollar. Foreign currency risk arises from transactions denominated in currencies denominated in currencies other than US dollars. As some costs are denominated in Canadian dollars, UK Sterling, Kazakh Tenge and Kyrgyz Som. As at December 31, 2016, the Company holds only 6% of its cash in foreign currencies (Note 4). Management believes the foreign exchange risk related to currency conversions are minimal and therefore, does not hedge its foreign exchange risk. The effect of a 10% change in the foreign exchange rate on cash held in foreign currencies at December 31, 2016 would be nominal.

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

18. MANAGEMENT OF CAPITAL

The Company considers its common shares and stock options as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable level of risk. The Company is not subject to any externally imposed capital restrictions.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets, or adjust the amount of cash.

In order to facilitate the management of its capital requirements, the Company prepares expenditure forecasts that are updated as necessary depending on various factors including successful capital deployment and general industry conditions. In order to maximize ongoing exploration expenditures, the Company does not pay out dividends.

There has been no changes to the Company's approach to capital management for the years presented.

19. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	Year ended December 31, 2016 $	2015 $
Statutory tax rate	20.10%	20.10%
Loss for the year	(1,844)	(8,960)
Expected income tax recovery	(371)	(1,801)
Non-deductible expenses	245	1,359
Different tax rates of foreign jurisdictions	(24)	9
Change in benefits not recognised, deferred tax rates and other	150	433
Total	-	-

The significant components of the Company's unrecorded deferred tax assets are as follows:

	December 31, 2016 $	December 31, 2015 $
Deferred tax assets (liabilities)		
Allowable capital losses	33,353	33,353
Non-capital losses available for future periods	12,563	12,356
Total unrecognized deferred tax assets	45,916	45,709

Deferred tax assets have not been recognized in these financial statements as it is not probable that they will be realized.

(All tabular amounts are expressed in thousands of US dollars unless otherwise noted)

19. INCOME TAXES (continued)

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

	December 31, 2016 $	Expiry date range
Temporary differences		
Allowable capital losses	166,765	no expiry date
Non-capital losses available for future periods	63,775	2017 to 2036
Non-capital loss summary		
UK	35,092	no expiry date
Kazakhstan	27,471	2018 to 2020
Canada	47	2025 to 2030

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

20. SUBSEQUENT EVENTS

Except as disclosed elsewhere in these consolidated financial statements (see notes 6 and 8), the Company completed the following transactions subsequent to year-end:

a) issued 7,400,000 common shares on the exercise of options for gross proceeds of $148,000; and

b) cancelled 1,500,000 stock options.