CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2017

(Expressed in US dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Orsu Metals Corporation

We have audited the accompanying consolidated financial statements of Orsu Metals Corporation, which comprise the consolidated statements of financial position as at December 31, 2017, and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the year then ended, and 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 audit. We conducted our audit 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, these consolidated financial statements present fairly, in all material respects, the financial position of Orsu Metals Corporation as at December 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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Other Matters

The consolidated financial statements of Orsu Metals Corporation for the year ended December 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on April 28, 2017.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

April 27, 2018

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

	Note	December 31, 2017	December 31, 2016
ASSETS			
Current			
Cash	*4*	$ 4,976,892	$ 2,350,017
Receivables and prepaid expenses	*5*	165,162	74,686
Assets held for sale	*6*	-	8,215,365
		5,142,054	10,640,068
Exploration and evaluation assets	*7*	3,631,715	-
Property, plant and equipment	*8*	80,000	3,746
		$ 8,853,769	$ 10,643,814
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current			
Trade and other payables	*9*	$ 178,401	$ 229,271
Liabilities held for sale	*6*	-	36,119
		178,401	265,390
Shareholders' equity			
Share capital	*11*	385,807,842	382,576,233
Obligation to issue shares	*11*	46,573	-
Reserves	*11*	33,538,873	34,260,276
Deficit		(410,961,020)	(405,635,085)
Equity attributable to Orsu shareholders		8,432,268	11,201,424
Non-controlling interest		243,100	(823,000)
		8,675,368	10,378,424
		$ 8,853,769	$ 10,643,814

Nature of operations	*1*		
Subsequent events	*11*		

These consolidated financial statements were approved for issue by the Board of Directors on April 27, 2018.

They are signed on the Company's behalf by:

"Mark Corra"	*"Sergei Stefanovich"*
Mark Corra, Director	Sergei Stefanovich, Director

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

	Note	Year ended December 31, 2017	2016
EXPENSES			
Administration		$ 227,345	$ 188,604
Depreciation	*8*	3,746	5,821
Exploration and evaluation expenditures	*7*	1,079,726	-
Foreign exchange		136,753	121,058
Professional fees		405,151	307,361
Project investigation costs	*7*	332,871	130,000
Salaries and benefits		531,348	1,170,497
Share-based compensation	*11*	369,739	-
Transfer agent and regulatory fees		81,301	91,447
		(3,167,980)	(2,014,788)
OTHER INCOME (EXPENSES)			
Gain on amounts received from Equus	*13*	221,010	-
Gain on disposal of assets held for sale	*6*	11,652	-
Gain on share warrant liability		-	4,630
Interest expense	*10*	(5,852)	-
Interest income		20,118	14,950
Interest income from Equus	*13*	3,800	-
Loss from assets held for sale	*6*	(115,344)	(586,344)
Loss on disposal of assets held for sale	*6*	(2,261,693)	-
Non-refundable deposit	*6*	-	100,000
Onerous provision release		-	171,000
		(2,126,309)	(295,764)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		(5,294,289)	(2,310,552)
DISCONTINUED OPERATION			
Loss from discontinued operation		-	(4,238)
Gain on disposal of discontinued operation	*12*	-	469,254
GAIN FOR THE YEAR FROM DISCONTINUED OPERATION		-	465,016
COMPREHENSIVE LOSS FOR THE YEAR		$ (5,294,289)	$ (1,845,536)
NET GAIN (LOSS) ATTRIBUTABLE TO ORSU SHAREHOLDERS			
Loss from continuing operations		$ (5,325,935)	$ (2,214,552)
Gain from discontinued operation		-	465,016
		$ (5,325,935)	$ (1,749,536)
NET GAIN (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTEREST			
Gain (loss) from continuing operations on Kazakh operations		$ 823,000	$ (96,000)
Loss from continuing operations on Russian operations		(791,354)	-
Loss from discontinued operation		-	-
		$ 31,646	$ (96,000)
Basic and diluted loss per common share from continuing operations		$ (0.18)	$ (0.13)
Basic and diluted gain per common share from discontinued operation		$ -	$ 0.03
Weighted average number of common shares outstanding		29,327,907	18,269,530

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

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

	Year ended December 31, 2017	2016
CASH PROVIDED BY (USED FOR):		
OPERATING ACTIVITIES:		
Loss for the year	$ (5,294,289)	$ (1,845,536)
Less:		
Loss from discontinued operation	-	4,238
Gain on disposal of discontinued operation	-	(469,254)
Loss for the year from continuing operations	(5,294,289)	(2,310,552)
Items not affecting cash:		
Depreciation	3,746	5,821
Share-based compensation	369,739	-
Gain on disposal of assets held for sale	(11,652)	-
Gain on share warrant liability	-	(4,630)
Impairment of property, plant and equipment	-	258,000
Loss on disposal of assets held for sale	2,261,693	-
Onerous provision release	-	(171,000)
Accrued interest expense	5,852	-
Obligation to issue shares	68,456	-
Change in non-cash working capital items:		
Receivables and prepaid expenses	(66,037)	142,314
Other assets	-	88,000
Trade and other payables	(184,839)	(175,766)
	(2,847,331)	(2,167,813)
INVESTING ACTIVITIES:		
Property, plant and equipment	-	(161,932)
Sergeevskoe acquisition costs, net of cash received	(386,656)	-
Cash received on disposal of assets held for sale	5,907,443	-
	5,520,787	(161,932)
FINANCING ACTIVITIES:		
Exercise of options	133,419	-
Repayment of promissory note	(180,000)	-
	(46,581)	-
INCREASE (DECREASE) IN CASH FOR THE YEAR	2,626,875	(2,329,745)
CASH, BEGINNING OF THE YEAR	2,350,017	4,697,000
CASH USED FOR DISCONTINUED OPERATION	-	(4,238)
CASH, HELD FOR SALE	-	(13,000)
CASH, END OF THE YEAR	$ 4,976,892	$ 2,350,017
Non-cash investing and financing activities		
Shares issued for acquisition of Sergeevskoe	$ 3,041,502	$ -
Supplemental cash flow information		
Cash paid for interest	5,852	-
Cash paid for income taxes	-	-

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

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

	Number of shares	Share capital	Obligation to issue shares	Reserves	Non-controlling interest	Deficit	Shareholders' equity
Balance, December 31, 2015	18,269,530	$ 382,576,233	$ -	$ 34,260,276	$ (727,000)	$ (403,885,549)	$ 12,223,960
Comprehensive loss for the year	-	-	-	-	(96,000)	(1,749,536)	(1,845,536)
Balance, December 31, 2016	18,269,530	$ 382,576,233	$ -	$ 34,260,276	$ (823,000)	$ (405,635,085)	$ 10,378,424

	Number of shares	Share capital	Obligation to issue shares	Reserves	Non-controlling interest	Deficit	Shareholders' equity
Balance, December 31, 2016	18,269,530	$ 382,576,233	$ -	$ 34,260,276	$ (823,000)	$ (405,635,085)	$ 10,378,424
Exercise of options	890,000	190,107	-	(56,688)	-	-	133,419
Acquisition of Sergeevskoe	16,559,152	3,041,502	-	(1,034,454)	1,034,454	-	3,041,502
Obligation to issue shares	-	-	46,573	-	-	-	46,573
Share-based compensation	-	-	-	369,739	-	-	369,739
Comprehensive loss for the year	-	-	-	-	31,646	(5,325,935)	(5,294,289)
Balance, December 31, 2017	35,718,682	$ 385,807,842	$ 46,573	$ 33,538,873	$ 243,100	$ (410,961,020)	$ 8,675,368

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

1. NATURE OF OPERATIONS

Orsu Metals Corporation ("Orsu" or the "Company") is a publicly-traded company incorporated in the British Virgin Islands. 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 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.

Effective September 15, 2017, the Company consolidated its shares on a 10 old for 1 new basis. All share and per share amounts in these consolidated financial statements have been retroactively restated to reflect the consolidation.

The Company is engaged in the exploration and, if warranted, development of a mineral resource project in eastern Russia. The Company is considered to be in the exploration stage as it has not placed any of its exploration and evaluation assets into production nor has it generated any revenues from operations.

In October 2017, the Company sold its 94.75% interest in the Karchiga project located in Kazakhstan for proceeds of $5,908,000 (Note 6).

By November 2017, the Company completed the acquisition of a 90% interest in the Sergeevskoe gold project located in eastern Russia (Note 7).

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, 2017, the Company had working capital of $4,963,653. Management estimates that these funds will provide the Company with sufficient financial resources to carry out currently planned exploration and operations over the next twelve months.

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 exploration and evaluation assets</u>

Management has determined that acquisition costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including geologic and other technical information, scoping and feasibility studies, accessibility of facilities and existing permits.

<u>Share-based compensation</u>

The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model which incorporates market data and which involves uncertainty and subjectivity in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in the subjective input assumptions can materially affect the fair value estimate.

<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 forecasted 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:

Determination of functional currency

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.

Business combination vs. asset acquisition

IFRS requires that a determination is made as to whether an acquisition is a business combination by applying the definitions contained in IFRS 3, which requires that the assets acquired, and liabilities assumed constitute a business. Management has determined that the acquisition of Sibzoloto (Note 7) does not constitute the acquisition of a business, therefore, has treated it as an acquisition of a group of assets.

Control of Sibzoloto

Upon acquisition of the initial 30% interest in Sibzoloto (Note 7), management determined that the Company exerted control over Sibzoloto as the Company was responsible for funding 100% of all costs related to the Sergeevskoe project. In addition, representatives of two of the Sellers joined the board of directors of the Company, one of whom was appointed as the Company's Managing Director. Upon acquisition of a further 60% interest (Note 7), the Company is now responsible for funding 100% of all costs until completion of a definitive feasibility study.

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.

(Expressed in US dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Principles of consolidation (continued)

Name of subsidiary	Place of incorporation	Ownership interest at December 31, 2017	Principal activity
Sibzoloto Investments Limited (1)	Cyprus	90%	Holding company
LLC GK Alexandrovskoe (1)	Russia	90%	Mineral exploration company
LLC Invest Realty (1) (2)	Russia	0%	Holding company
Lero Gold Corp.	Canada	100%	Holding company
Eildon Enterprises Limited (3)	BVI	100%	Holding company
GRK MLD LLP (4)	Kazakhstan	0%	Operating mineral exploration company
European Minerals (UK) Limited (5)	UK	0%	Dormant holding company
Harssin Management B.V. (6)	Netherlands	0%	Dormant holding company
Orsu Metals Kazakhstan (6)	Kazakhstan	0%	Dormant holding company
Kogodai LLP (6)	Kazakhstan	0%	Dormant mineral exploration company
Almaty Exploration Limited (7)	BVI	0%	Dormant holding company
Bauer Investments Corporation (7)	BVI	0%	Dormant holding company

(1) Acquired an initial 30% in May 2017 and an additional 60% in November 2017 (Note 7)
(2) LLC Invest Realty was merged with LLC GK Alexandrovskoe in November 2017 (Note 7)
(3) Dissolved in January 2018
(4) Sold in October 2017 (Note 6)
(5) Dissolved in September 2017
(6) Sold in March 2017 (Note 6)
(7) Struck from the register in March 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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:

Camp and infrastructure	10 years
Leasehold improvements	10 years
Vehicles	4 to 10 years
Other assets	3 to 10 years

Exploration and evaluation assets and expenditures

Upon acquiring the legal right to explore a property, all direct costs related to the acquisition of mineral property interests are capitalized as exploration and evaluation assets. Exploration and evaluation expenditures incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development are charged to operations as incurred.

The Company may occasionally enter into farm-out arrangements, whereby the Company transfers part of a mineral interest as consideration for an agreement by the transferee to meet certain exploration and evaluation expenditure commitments. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a recovery of exploration and evaluation assets.

Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method upon reaching production. When there is little prospect of further work on a property being carried out by the Company, the remaining deferred costs associated with that property are charged to operations during the period such determination is made.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment

The Company reviews and evaluates its exploration and evaluation 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

(iii) Impairment of financial assets (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 reserves. 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 reserves 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

The Company presents basic and diluted earnings (loss) per share (“EPS”) data for its common shares. Basic EPS is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period, adjusted for own shares held. Diluted EPS is calculated by dividing the profit or loss by the weighted average number of common shares outstanding assuming that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

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. Deferred 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 tax 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.

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, 2017, 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.

(Expressed in US dollars)

4. CASH

		December 31, 2017		December 31, 2016
US dollar denominated deposits held in Canada	$	4,763,901	$	1,999,981
Canadian dollar denominated deposits held in Canada		111,421		22,267
US dollar denominated deposits held in Russia		68,700		-
Ruble denominated deposits held in Russia		1,905		-
US dollar denominated deposits held in Cyprus		6,604		-
Euro denominated deposits held in Cyprus		39		-
GBP denominated deposits held in the UK		24,322		34,529
US dollar denominated deposits held in the UK		-		232,124
Canadian dollar denominated deposits held in the UK		-		59,834
GBP denominated deposits held in the Netherlands		-		1,282
Total	$	4,976,892	$	2,350,017

5. RECEIVABLES AND PREPAID EXPENSES

		December 31, 2017		December 31, 2016
Receivables	$	139,803	$	46,698
Prepaid expenses		25,359		27,988
Total	$	165,162	$	74,686

6. ASSETS HELD FOR SALE

Included in assets and liabilities held for sale are the assets and liabilities of the Karchiga and Kogodai Projects, both located in Kazakhstan.

		December 31, 2017		December 31, 2016
Cash	$	-	$	12,602
Receivables and prepaid expenses		-		20,395
Property, plant and equipment		-		8,182,368
Assets held for sale		-		8,215,365
Trade and other payables		-		(36,119)
Liabilities held for sale		-		(36,119)
Net assets held for sale	$	-	$	8,179,246

As at December 31, 2016, the Karchiga Project includes assets of $8,198,193 and liabilities of $17,295 while the Kogodai Project includes assets of $17,172 and liabilities of $18,824.

(Expressed in US dollars)

6. ASSETS HELD FOR SALE (continued)

Karchiga Project, Kazakhstan

The Company held a 94.75% interest in the Karchiga Project, located in Kazakhstan, through its 100% interest in Lero Gold Corp. ("Lero") which in turn held 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.

In October 2017, the Company completed the sale of its interest in MLD to CMSS Global Supply and Trading – FZC ("CMSS") for $5,908,000 and recorded a loss on disposal of assets held for sale of $2,261,693 as follows:

Consideration received		
Cash	$	5,908,000
	$	5,908,000

Net assets disposed		
Cash	$	1,867
Receivables and prepaid expenses		19,692
Property, plant and equipment		8,175,962
Trade and other payables		(27,828)
	$	8,169,693
Loss on disposal of assets held for sale	$	(2,261,693)

Prior to the successful sale of MLD to CMSS, the Company had been a party to an April 11, 2016, agreement, as amended, to sell its interest in MLD to Karasat Trading FZE ("Karasat") for $7,750,000 ($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 in June 2016 however in February 2017, Karasat informed the Company that it was unable to obtain the necessary financing to pay the purchase price and therefore the agreement was terminated.

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, 2017 and 2016 are shown below:

	Year ended December 31,			
		2017		**2016**
Administration expenses	$	115,344	$	268,667
Foreign exchange		-		59,677
Impairment		-		258,000
Loss from assets held for sale	$	(115,344)	$	(586,344)

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 $7,750,000 for the Company's 94.75% interest in the shares of MLD. Accordingly, the Company recorded an impairment charge of $258,000 in the year ended December 31, 2016.

(Expressed in US dollars)

6. ASSETS HELD FOR SALE (continued)

Kogodai Project, Kazakhstan

The Company held an effective 51% interest in the Kogodai Project in Kazakhstan 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 LLP. In March 2017, the Company completed the sale of Harssin for $10,000 and recorded a gain on disposal of assets held for sale of $11,652 as follows:

Consideration received		
Cash	$	10,000
	$	10,000

Net assets disposed		
Cash	$	8,690
Receivables and prepaid expenses		4,864
Equipment		3,618
Trade and other payables		(18,824)
	$	(1,652)
Gain on disposal of assets held for sale	$	11,652

7. EXPLORATION AND EVALUATION ASSETS

Components of the Company's exploration and evaluation assets located in Russia are summarized below:

		Sergeevskoe Project
December 31, 2016	$	-
Acquisition of 90% of Sergeevskoe Project		3,631,715
December 31, 2017	$	3,631,715

Sergeevskoe Project, Russia

The Sergeevskoe project is owned by Sibzoloto Investments Limited ("Sibzoloto"), a Cyprus registered company, which in turn is the sole owner of LLC GK Alexandrovskoe, holder of the Sergeevskoe licence since merging with LLC Invest Realty, the owner of a work camp and infrastructure to support the nearby Sergeevskoe project. The shares of Sibzoloto were owned by four arm's length parties (the "Sellers").

(Expressed in US dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

In September 2016, the Company entered into an exclusive and binding agreement which was superseded by a share purchase agreement ("SPA") in January 2017, as amended, for the acquisition of the Sergeevskoe gold project located in eastern Russia.

In November 2017, the Company completed the acquisition of a 90% interest in Sibzoloto for consideration of $420,000 cash, the issue of 16,559,152 common shares of the Company at a value of $3,041,502 and the issue of a promissory note for $100,000 (Note 10) bearing interest at a rate of 8% per annum with payment due on the sale of the Karchiga Project (Note 6).

Consideration given up		
Cash	$	420,000
Shares issued		3,041,502
Promissory note		100,000
Transaction costs		7,706
Total	$	3,569,208

Net assets received		
Cash	$	41,050
Receivables and prepaid expenses		13,210
Property, plant and equipment		80,000
Exploration and evaluation assets		3,631,715
Trade and other payables		(116,767)
Promissory note		(80,000)
Total	$	3,569,208

As contemplated in the original SPA, the Company acquired Sibzoloto in stages: acquiring 30% in May 2017 and 60% in November 2017 for a total of 90%. Upon acquiring the initial 30%, the Company consolidated Sibzoloto and realized a non-controlling interest of $2,493,052 based upon the fair value of the non-controlling interest. Upon acquiring the additional 60%, the Company accounted for the increase as a capital transaction, recognizing $1,034,454 against reserves.

The Sellers were granted a net smelter return royalty of 0.75% on the Sergeevskoe project, to be capped at $7,500,000 at which point it will expire. Orsu will carry the Sellers 10% interest until completion of a definitive feasibility study on the Sergeevskoe project, at which point the 10% interest will become a participating interest, subject to dilution.

In anticipation of closing, the Company advanced Sibzoloto $130,000 in October 2016 towards exploration work to advance the Sergeevskoe Project. From January 1, 2017 to May 18, 2017, the Company advanced Sibzoloto a further $332,871 towards exploration work to advance the Sergeevskoe Project. These advanced have been recorded as project investigation costs on the statement of loss and comprehensive loss.

The Company is responsible for funding 100% of all costs until completion of a definitive feasibility study.

(Expressed in US dollars)

7. EXPLORATION AND EVALUATION ASSETS (continued)

Exploration and evaluation expenditures included in the loss for the year ended December 31, 2017 are as follows:

	Year ended December 31, 2017	2016
Drilling and assays	$ 948,157	$ -
Licenses and permits	20,367	-
Personnel, administration and travel	111,202	-
	$ 1,079,726	$ -

8. PROPERTY, PLANT AND EQUIPMENT

	Karchiga project	Camp and infrastructure	Leasehold improvements	Vehicles	Other assets	Total
Cost						
December 31, 2015	$ 8,170,001	$ -	$ 392,207	$ 120,003	$ 445,871	$ 9,128,082
Additions	15,151	-	-	-	5,416	20,567
Write-off	-	-	(392,207)	(13,678)	(291,109)	(696,994)
Reclassified to assets held for sale	(8,185,152)	-	-	(106,325)	(153,057)	(8,444,534)
December 31, 2016	-	-	-	-	7,121	7,121
Additions	-	80,000	-	-	-	80,000
December 31, 2017	$ -	$ 80,000	$ -	$ -	$ 7,121	$ 87,121
Accumulated depreciation						
December 31, 2015	$ -	$ -	$ (392,207)	$ (72,199)	$ (376,356)	$ (840,762)
Depreciation	-	-	-	-	(5,821)	(5,821)
Write-off	-	-	392,207	13,678	291,109	696,994
Reclassified to assets held for sale	-	-	-	58,521	87,693	146,214
December 31, 2016	-	-	-	-	(3,375)	(3,375)
Depreciation	-	-	-	-	(3,746)	(3,746)
December 31, 2017	$ -	$ -	$ -	$ -	$ (7,121)	$ (7,121)
Carrying amounts						
December 31, 2016	$ -	$ -	$ -	$ -	$ 3,746	$ 3,746
December 31, 2017	$ -	$ 80,000	$ -	$ -	$ -	$ 80,000

During the year ended December 31, 2016, the Karchiga Project was reclassified as assets held for sale (Note 6) and the Company wrote-off fully amortized equipment of $696,994 primarily related to the end of the Company's lease in February 2016 at its former head office in London.

(Expressed in US dollars)

9. TRADE AND OTHER PAYABLES

		December 31, 2017		December 31, 2016
Trade and other payables in BVI	$	103,589	$	201,147
Trade and other payables in Cyprus		19,599		-
Trade and other payables in Russia		33,330		-
Trade and other payables in the UK		-		11,945
Trade and other payables in Canada		-		8,183
Trade and other payables in the Netherlands		-		2,460
Obligation to issue shares		21,883		-
Due to related parties		-		5,536
Total	$	178,401	$	229,271

10. PROMISSORY NOTES

On acquisition of the Sergeevskoe project located in eastern Russia (Note 7), the Company issued a promissory note to the Sellers for $100,000 and agreed to fund a promissory note for $80,000 payable to a company related to the Sellers. Both promissory notes bear interest at a rate of 8% per annum and are payable on the sale of the Karchiga project.

In October 2017, the Company repaid both promissory notes totalling $180,000 plus accrued interest of $5,852.

11. 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, 2017 the company had 35,718,682 common shares issued and outstanding (2016 – 18,269,530). A summary of changes in share capital and reserves is contained on the consolidated statements of changes in equity for the years ended December 31, 2017 and 2016.

During the year ended December 31, 2017 the Company issued the following common shares:

- Issued 890,000 common shares on the exercise of options for proceeds of $133,419 (CAD$178,000);
- Issued 16,559,152 common shares valued at $3,041,502 as consideration for the Sergeevskoe project (Note 7).

There were no common shares issued in the year ended December 31, 2016.

(Expressed in US dollars)

11. SHARE CAPITAL AND RESERVES (continued)

c) Share Purchase Warrants

There were no share purchase warrants issued during the year ended December 31, 2017.

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

Expiry date	*Exercise price CAD$*	Balance, December 31, 2015	Granted	Exercised	Expired	Balance, December 31, 2016
July 25, 2016	*$ 5.00*	1,250,000	-	-	(1,250,000)	-
		1,250,000	-	-	(1,250,000)	-
Weighted average exercise price - CAD$		$ 5.00	$ -	$ -	$ 5.00	$ -

d) Options

The Company has 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.

The continuity of stock options for the year ended December 31, 2017 is as follows:

Expiry date	*Exercise price CAD$*	Balance, December 31, 2016	Granted	Exercised	Forfeited	Balance, December 31, 2017
September 2, 2020	*$ 0.20*	1,570,000	-	(890,000)	(200,000)	480,000
September 21, 2022	*$ 0.13*	-	2,845,000	-	-	2,845,000
		1,570,000	2,845,000	(890,000)	(200,000)	3,325,000
Weighted average exercise price - CAD$		$ 0.20	$ 0.13	$ 0.20	$ 0.20	$ 0.14

As at December 31, 2017, all the stock options were exercisable with a weighted average remaining life of 4.43 years.

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

Expiry date	*Exercise price CAD$*	Balance, December 31, 2015	Granted	Exercised	Expired	Balance, December 31, 2016
February 22, 2016	*$ 3.00*	7,500	-	-	(7,500)	-
September 2, 2020	*$ 0.20*	1,570,000	-	-	-	1,570,000
		1,570,000	-	-	-	1,570,000
Weighted average exercise price - CAD$		$ 0.20	$ -	$ -	$ 3.00	$ 0.20

11. SHARE CAPITAL AND RESERVES (continued)

e) Share-based compensation

During the year ended December 31, 2017, the Company recorded share-based compensation of $369,739 (2016 - $Nil).

On September 21, 2017, the Company granted 2,845,000 stock options to directors, officers, and consultants at a fair value of $369,739 or $0.13 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 1.74%; an expected volatility of 119%; an expected life of 5 years; a forfeiture rate of 0%; and an expected dividend of zero.

f) Obligation to issue shares

The Company's three non-executive directors of the Company are paid an annual fee of $15,000 per year. As the Company permits, one of the directors has elected to be paid half of his annual fees in cash and the other half in shares, while the other two directors have elected to be paid all of their annual fees in shares. The Company's Managing Director has elected to be paid half of his annual salary of Euro 60,000 in cash and the remainder in shares. In addition, during the year the Company engaged a consultant at the rate of $30,000 a year to be paid in shares. All shares to be issued will be subject to approval by the TSX-V and will be priced at the closing price on the last trading day of December each year and issued within 3 business days after that. During the year ended December 31, 2017, the Company recorded $68,456 as an obligation to issue shares with $46,573 recorded in equity and $21,883 included in trade and other payables as the latter is subject to shareholder approval.

Subsequent to December 31, 2017, the Company issued 354,089 common shares to settle the obligation of $46,573. An additional 168,282 common shares are to be issued subject to shareholder approval to settle the obligation of $21,883.

(Expressed in US dollars)

12. DISCONTINUED OPERATION

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 $4,190,000 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 $2,000,000; or
- cancel the Oriel Loan upon the payment by the Purchasers of the sum of $2,000,000; 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 $2,000,000 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 and 2017.

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.

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

Transaction costs	$	5,914
Trade and other payables		(475,168)
Gain on disposal of discontinued operation	$	(469,254)

(Expressed in US dollars)

13. 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 non-executive Board of Directors, the Executive Chairman, the Managing Director, the Director of Exploration, the Chief Financial Officer and the Corporate Secretary. The aggregate compensation paid or accrued to key management personnel, during the years ended December 31, 2017 and 2016 were as follows:

		Year ended December 31,	
		2017	**2016**
Salaries and benefits			
Sergey Kurzin	Director	$ 94,821	$ 210,962
Sergey Stefanovich	Director	44,543	-
Alexander Yakubchuk	Officer	91,320	194,055
Mark Corra	Director	16,147	24,257
David Rhodes	Director	16,147	24,257
Vladimir Pakhomov	Director	9,274	-
Massimo Carello	Director	-	30,321
Doris Meyer & Dan O'Brien *	Officers	115,612	29,577
Kevin Denham	Officer	-	198,884
		387,864	712,313
Share-based compensation	Directors & Officers	279,416	-
		$ 667,280	$ 712,313

*Consulting fees are paid to Golden Oak Corporate Services Ltd. (“Golden Oak”), a company owned by Doris Meyer, which provides Doris Meyer’s services as Corporate Secretary and Dan O’Brien’s services as Chief Financial Officer to the Company.

Included in trade and other payables as at December 31, 2017 is $21,883 (2016 - $5,536) payable to a director of the Company for fees (Note 11).

Equus Petroleum plc

The Company entered into a sublease agreement, dated June 1, 2012, with Equus Petroleum plc (“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. 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.

By letter agreement dated December 8, 2016, as amended, 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 currently accrued on the principal at the rate of 5% per annum.

During the year ended December 31, 2017, Equus paid the Company £177,563 in full and final settlement of the debt and accordingly, the Company recorded interest income of $3,800 (£3,034) and a gain on amounts received from Equus of $221,010 (£174,529).

(Expressed in US dollars)

14. 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 Executive Chairman.

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

With the exception of the cash disclosed in Note 4, all of the Company's significant assets are now held in Russia as at December 31, 2017.

15. 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, 2017	December 31, 2016
Cash	FVTPL	**$ 4,976,892**	**$ 2,350,017**
Receivables	Loans and receivables	**139,803**	**46,698**
Trade and other payables	Other liabilities	**178,401**	**229,271**

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.

15. 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, Great British Pounds and Russian Ruble. As at December 31, 2017, the Company holds only 2% 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, 2017 would be nominal.

(Expressed in US dollars)

16. MANAGEMENT OF CAPITAL

The Company considers its shareholders' equity 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.

17. INCOME TAXES

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

		Year ended December 31,		
		2017		2016
Statutory tax rate		20.10%		20.10%
Loss for the year	$	(5,294,289)	$	(1,845,536)
Expected income tax recovery	$	(1,377,000)	$	(371,000)
Different tax rates of foreign jurisdictions		(1,882,000)		245,000
Tax effect of restructuring operations		6,731,000		-
Adjustment to prior years provision versus statutory tax returns		(1,078,000)		-
Non-deductible expenses		15,000		(24,000)
Change in benefits not recognised, deferred tax rates and other		(2,409,000)		150,000
Total	$	-	$	-

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

		December 31, 2017		December 31, 2016
Deferred tax assets (liabilities)				
Allowable capital losses	$	2,643,000	$	33,353,000
Non-capital losses available for future periods		251,000		12,563,000
Total unrecognized deferred tax assets	$	2,894,000	$	45,916,000

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

(Expressed in US dollars)

17. INCOME TAXES (continued)

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

		December 31, 2017	Expiry date range
Temporary differences			
Allowable capital losses	$	9,787,000	No expiry date
Non-capital losses available for future periods		1,248,000	2018 to 2036
Non-capital loss summary			
Russia	$	1,179,000	no expiry date
Cyprus		24,000	no expiry date
Canada		45,000	2026 to 2030

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