ORSU Metals Corp.

# CONSOLIDATED FINANCIAL STATEMENTS

**For the year ended December 31, 2018**

(Expressed in US dollars)

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Orsu Metals Corporation

***Opinion***

We have audited the accompanying consolidated financial statements of Orsu Metals Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

***Basis for Opinion***

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

***Material Uncertainty Related to Going Concern***

We draw attention to Note 1 of the consolidated financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

***Other Information***

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor’s report is Stephen Hawkshaw.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

April 25, 2019

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

| | Note | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current** | | | |
| Cash | *4* | $ 1,681,071 | $ 4,976,892 |
| Receivables | *5* | 177,339 | 139,803 |
| Prepaid expenses | *6* | 123,761 | 25,359 |
| | | 1,982,171 | 5,142,054 |
| **Exploration and evaluation assets** | *7* | 3,631,715 | 3,631,715 |
| **Property, plant and equipment** | *8* | 72,000 | 80,000 |
| | | $ 5,685,886 | $ 8,853,769 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | |
| **Current** | | | |
| Trade and other payables | *9* | $ 55,454 | $ 178,401 |
| | | 55,454 | 178,401 |
| **Shareholders' equity** | | | |
| Share capital | *11* | 385,876,298 | 385,807,842 |
| Obligation to issue shares | *11* | 67,500 | 46,573 |
| Reserves | *11* | 33,538,873 | 33,538,873 |
| Deficit | | (413,889,029) | (410,961,020) |
| Equity attributable to Orsu shareholders | | 5,593,642 | 8,432,268 |
| Non-controlling interest | | 36,790 | 243,100 |
| | | 5,630,432 | 8,675,368 |
| | | $ 5,685,886 | $ 8,853,769 |

| | |
|---|---|
| **Nature of operations and going concern** | *1* |
| **Subsequent event** | *11 (d)* |

These consolidated financial statements were approved for issue by the Board of Directors on April 25, 2019.

They are signed on the Company's behalf by:

*"Mark Corra"*
Mark Corra, Director

*"Sergei Stefanovich"*
Sergei Stefanovich, Director

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

| | Note | Year ended December 31, 2018 | 2017 |
|---|---|---|---|
| **EXPENSES** | | | |
| Administration | | $ 68,185 | $ 126,974 |
| Depreciation | *8* | 8,000 | 3,746 |
| Exploration and evaluation expenditures | *7* | 2,272,065 | 1,079,726 |
| Foreign exchange | | 179,880 | 136,753 |
| Investor relations | | 68,121 | 3,661 |
| Professional fees | | 80,068 | 405,151 |
| Project investigation costs | *7* | - | 332,871 |
| Salaries and benefits | | 398,650 | 531,348 |
| Share-based compensation | *11* | - | 369,739 |
| Transfer agent and regulatory fees | | 41,287 | 96,710 |
| Travel | | 62,422 | 81,301 |
| | | (3,178,678) | (3,167,980) |
| **Gain on amounts received from Equus** | *13* | - | 221,010 |
| **Gain on disposal of assets held for sale** | *12* | - | 11,652 |
| **Interest expense** | *10* | - | (5,852) |
| **Interest income** | | 44,359 | 20,118 |
| **Interest income from Equus** | *13* | - | 3,800 |
| **Loss from assets held for sale** | *12* | - | (115,344) |
| **Loss on disposal of assets held for sale** | *12* | - | (2,261,693) |
| **LOSS AND COMPREHENSIVE LOSS FOR THE YEAR** | | $ (3,134,319) | $ (5,294,289) |
| **Loss attributable to Orsu shareholders** | | $ (2,928,009) | $ (5,325,935) |
| **Income (loss) attributable to non-controlling interest shareholders** | | (206,310) | 31,646 |
| | | $ (3,134,319) | $ (5,294,289) |
| **Basic and diluted loss per common share** | | $ (0.09) | $ (0.18) |
| **Basic and diluted weighted average number of common shares outstanding** | | 36,082,655 | 29,327,907 |

*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, 2018 | 2017 |
|---|---|---|
| **CASH PROVIDED BY (USED FOR):** | | |
| **OPERATING ACTIVITIES:** | | |
| Loss for the year | $ (3,134,319) | $ (5,294,289) |
| Items not affecting cash: | | |
| Depreciation | 8,000 | 3,746 |
| Share-based compensation | - | 369,739 |
| Gain on disposal of assets held for sale | - | (11,652) |
| Loss on disposal of assets held for sale | - | 2,261,693 |
| Accrued interest expense | - | 5,852 |
| Obligation to issue shares | 67,500 | 68,456 |
| Change in non-cash working capital items: | | |
| Receivables | (37,536) | (77,266) |
| Prepaid expenses | (98,402) | 11,229 |
| Trade and other payables | (101,064) | (184,839) |
| | (3,295,821) | (2,847,331) |
| **INVESTING ACTIVITIES:** | | |
| Sergeevskoe acquisition costs, net of cash received | - | (386,656) |
| Cash received on disposal of assets held for sale | - | 5,907,443 |
| | - | 5,520,787 |
| **FINANCING ACTIVITIES:** | | |
| Exercise of options | - | 133,419 |
| Repayment of promissory note | - | (180,000) |
| | - | (46,581) |
| **CHANGE IN CASH FOR THE YEAR** | (3,295,821) | 2,626,875 |
| **CASH, BEGINNING OF THE YEAR** | 4,976,892 | 2,350,017 |
| **CASH, END OF THE YEAR** | $ 1,681,071 | $ 4,976,892 |
| **Non-cash investing and financing activities** | | |
| Shares issued to settle an obligation to issue shares | $ 46,573 | $ - |
| Shares issued to settle trade and other payables | 21,883 | - |
| Shares issued for acquisition of Sergeevskoe | - | 3,041,502 |
| **Supplemental cash flow information** | | |
| Cash paid for interest | - | 5,852 |
| Cash paid for income taxes | - | - |

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

| | Number of shares | Share capital | Obligation to issue shares | Reserves | Deficit | Non-controlling interest | Shareholders' equity |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2017 | 35,718,682 | $ 385,807,842 | $ 46,573 | $ 33,538,873 | $ (410,961,020) | $ 243,100 | $ 8,675,368 |
| Shares issued to settle an obligation to issue shares | 354,089 | 46,573 | (46,573) | - | - | - | - |
| Shares issued to settle trade and other payables | 168,282 | 21,883 | - | - | - | - | 21,883 |
| Obligation to issue shares | - | - | 67,500 | - | - | - | 67,500 |
| Comprehensive loss for the year | - | - | - | - | (2,928,009) | (206,310) | (3,134,319) |
| Balance, December 31, 2018 | 36,241,053 | $ 385,876,298 | $ 67,500 | $ 33,538,873 | $ (413,889,029) | $ 36,790 | $ 5,630,432 |

| | Number of shares | Share capital | Obligation to issue shares | Reserves | Deficit | Non-controlling interest | Shareholders' equity |
|---|---|---|---|---|---|---|---|
| Balance, December 31, 2016 | 18,269,530 | $ 382,576,233 | $ - | $ 34,260,276 | $ (405,635,085) | $ (823,000) | $ 10,378,424 |
| Exercise of options | 890,000 | 190,107 | - | (56,688) | - | - | 133,419 |
| Shares issued for 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 | - | - | - | - | (5,325,935) | 31,646 | (5,294,289) |
| Balance, December 31, 2017 | 35,718,682 | $ 385,807,842 | $ 46,573 | $ 33,538,873 | $ (410,961,020) | $ 243,100 | $ 8,675,368 |

*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. The Company's shares are listed for trading on the TSX Venture Exchange ("TSX-V") under the symbol OSU. The corporate office of the Company is located at Unit 1 - 15782 Marine Drive, White Rock, B.C., Canada, V4B 1E6.

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.

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, 2018, the Company had working capital of $1,926,717. Management estimates that these funds will not provide the Company with sufficient financial resources to carry out currently planned exploration and operations over the next twelve months. Accordingly, the Company will need to seek additional sources of financing. 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.

**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.

## 2. BASIS OF PRESENTATION (continued)

### 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:

Going concern

In the determination of the Company's ability to meet its ongoing obligations and future contractual commitments management relies on the Company's planning, budgeting and forecasting process to help determine the funds required to support the Company's normal operations on an ongoing basis. The key inputs used by the Company in this process include forecasted capital deployment, progress on permitting, results from the exploration of its properties and general industry conditions. Changes in these inputs may alter the Company's ability to meet its ongoing obligations and future contractual commitments and could result in adjustments to the amounts and classifications of assets and liabilities should the Company be unable to continue as a going concern (Note 1).

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 in May 2017 (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 In November 2017 (Note 7), the Company is now responsible for funding 100% of all costs until completion of a definitive feasibility study.

(Expressed in US dollars)

## 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, 2018 | Principal activity |
|---|---|---|---|
| LLC GK Alexandrovskoe (1) | Russia | 90% | Mineral exploration company |
| Sibzoloto Investments Limited (1) | Cyprus | 90% | Holding company |
| Lero Gold Corp. | Canada | 100% | Holding company |
| Eildon Enterprises Limited (2) | BVI | 0% | Holding company |

*(1) Acquired an initial 30% in May 2017 and an additional 60% in November 2017 (Note 7)*
*(2) Dissolved in January 2018*

### 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 |
| Other assets | 3 to 10 years |

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

### Restoration, rehabilitation and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of exploration and evaluation assets and property, plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred if a reasonable estimate of cost can be made. The Company records the present value of estimated future cash flows associated with reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount.

Subsequently, these capitalized asset retirement costs are amortized over the life of the related assets. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial estimates (additional asset retirement costs).

The Company recognizes its environmental liability on a site-by-site basis when it can be reliably estimated. Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are changed to profit or loss. The Company has no restoration, rehabilitation or environmental obligations.

## 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 instruments

IFRS 9 Financial Instruments (“IFRS 9”) replaced IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”) and all previous versions of IFRS 9. There was no material impact to the Company’s consolidated financial statements as a result of transitioning to IFRS 9 on January 1, 2018.

IFRS 9 uses a single approach to determine whether a financial asset is classified and measured at amortized cost or at fair value. The classification and measurement of financial assets is based on the Company’s business models for managing its financial assets and whether the contractual cash flows represent solely payments of principal and interest (“SPPI”). Financial assets are initially measured at fair value and are subsequently measured at either (i) amortized cost; (ii) fair value through other comprehensive income, or (iii) at fair value through profit or loss.

*Amortized cost*

Financial assets classified and measured at amortized cost are those assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of the financial asset give rise to cash flows that are SPPI. Financial assets classified at amortized cost are measured using the effective interest method.

*Fair value through other comprehensive income (“FVTOCI”)*

Financial assets classified and measured at FVTOCI are those assets that are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and the contractual terms of the financial asset give rise to cash flows that are SPPI.

This classification includes certain equity instruments where IFRS 9 allows an entity to make an irrevocable election to classify the equity instruments, on an instrument-by-instrument basis, that would otherwise be measured at FVTPL to present subsequent changes in FVTOCI.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Fair value through profit or loss ("FVTPL")*

Financial assets classified and measured at FVTPL are those assets that do not meet the criteria to be classified at amortized cost or at FVTOCI. This category includes debt instruments whose cash flow characteristics are not SPPI or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell the financial asset.

Consistent with IAS 39, financial liabilities under IFRS 9 are generally classified and measured at fair value at initial recognition and subsequently measured at amortized cost.

The following table summarizes the classification of the Company's financial instruments under IAS 39 and IFRS 9:

| | IAS 39 | IFRS 9 |
|---|---|---|
| **Financial assets** | | |
| Cash | FVTPL | FVTPL |
| Receivables | Loans and receivables | Amortized cost |
| **Financial liabilities** | | |
| Trade and other payables | Other financial liabilities | Amortized cost |

### 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.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based compensation. Otherwise, share-based compensation is measured at the fair value of goods or services received.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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

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.

### 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, 2018 and have not been applied in preparing these consolidated financial statements.

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 this new standard and this standard is not expected to have a material effect on the consolidated financial statements.

(Expressed in US dollars)

## 4. CASH

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| US dollar denominated deposits held in Canada | $ | 1,607,045 | $ | 4,763,901 |
| Canadian dollar denominated deposits held in Canada | | 22,264 | | 111,421 |
| US dollar denominated deposits held in Russia | | - | | 68,700 |
| Ruble denominated deposits held in Russia | | 26,775 | | 1,905 |
| US dollar denominated deposits held in Cyprus | | 189 | | 6,604 |
| Euro denominated deposits held in Cyprus | | - | | 39 |
| GBP denominated deposits held in the UK | | 24,798 | | 24,322 |
| Total | $ | 1,681,071 | $ | 4,976,892 |

## 5. RECEIVABLES

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Amounts due from the Government of Russia pursuant to value added tax | $ | 164,499 | $ | 124,198 |
| Interest receivable | | 729 | | 12,509 |
| Other | | 12,111 | | 3,096 |
| Total | $ | 177,339 | $ | 139,803 |

In February 2019, the Company received approximately $120,000 (8,572,453 Russian Rubles) related to the amounts due from the Government of Russia pursuant to value added tax.

## 6. PREPAID EXPENSES

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Prepaid insurance | $ | 43,975 | $ | 24,658 |
| Prepaid investor relations | | 74,570 | | - |
| Other | | 5,216 | | 701 |
| Total | $ | 123,761 | $ | 25,359 |

(Expressed in US dollars)

## 7. EXPLORATION AND EVALUATION ASSETS

| | | Sergeevskoe Project |
|---|---|---|
| December 31, 2016 | $ | - |
| Acquisition of 90% of Sergeevskoe Project | | 3,631,715 |
| December 31, 2017 and 2018 | $ | 3,631,715 |

*Sergeevskoe Project, Russia*

The Sergeevskoe project is located in eastern Russia and 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. The shares of Sibzoloto were owned by four arm's length parties (the "Sellers").

The Sergeevskoe project is leased from the Russian Government until 2031.

By 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 12).

| **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 |

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.

(Expressed in US dollars)

## 7. EXPLORATION AND EVALUATION ASSETS (continued)

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.

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

In anticipation of closing the acquisition of the Sergeevskoe project, the Company advanced $332,871 during the year ended December 31, 2017 towards exploration work to advance the Sergeevskoe project. These advances were recorded as project investigation costs on the statement of loss and comprehensive loss.

Exploration and evaluation expenditures included in the loss for the years ended December 31, 2018 and 2017 are as follows:

| | Year ended December 31, | |
|---|---|---|
| | **2018** | **2017** |
| Drilling and assays | $ 2,091,786 | $ 948,157 |
| Licenses and permits | 43,711 | 20,367 |
| Personnel, administration and travel | 136,568 | 111,202 |
| | $ 2,272,065 | $ 1,079,726 |

*Akdjol-Tokhtazan Project, Kyrgyz Republic.*

On July 14, 2016, the Company sold its interest in the Akdjol-Tokhtazan Project located in the Kyrgyz Republic to Oriel in Kyrgyzstan LLC (“Oriel”). In accordance with the terms of the agreement, an existing interest free intercompany loan of $4,190,000 with Oriel (the “Oriel Loan”) remained in place and the purchasers may, within two years of the effective date of the agreement, 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.

The purchasers did not elect either option and accordingly the Oriel Loan is 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.

(Expressed in US dollars)

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Camp and infrastructure | Other assets | Total |
|---|---|---|---|
| **Cost** | | | |
| December 31, 2016 | $ - | $ 7,121 | $ 7,121 |
| Additions | 80,000 | - | 80,000 |
| December 31, 2017 | 80,000 | 7,121 | 87,121 |
| Additions | - | - | - |
| Write-off | - | (1,495) | (1,495) |
| December 31, 2018 | $ 80,000 | $ 5,626 | $ 85,626 |
| **Accumulated depreciation** | | | |
| December 31, 2016 | $ - | $ 3,375 | $ 3,375 |
| Depreciation | - | 3,746 | 3,746 |
| December 31, 2017 | - | 7,121 | 7,121 |
| Depreciation | 8,000 | - | 8,000 |
| Write-off | - | (1,495) | (1,495) |
| December 31, 2018 | $ 8,000 | $ 5,626 | $ 13,626 |
| **Carrying amounts** | | | |
| December 31, 2017 | $ 80,000 | $ - | $ 80,000 |
| December 31, 2018 | $ 72,000 | $ - | $ 72,000 |

## 9. TRADE AND OTHER PAYABLES

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Trade and other payables in BVI | $ 41,280 | $ 103,589 |
| Trade and other payables in Cyprus | 1,598 | 19,599 |
| Trade and other payables in Russia | 10,447 | 33,330 |
| Due to related parties (Note 13) | 2,129 | 21,883 |
| Total | $ 55,454 | $ 178,401 |

## 10. PROMISSORY NOTES

On acquisition of the Sergeevskoe project (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 bore interest at a rate of 8% per annum until paid.

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

(Expressed in US dollars)

## 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, 2018, the Company had 36,241,053 common shares issued and outstanding (2017 – 35,718,682). 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, 2018 and 2017.

During the year ended December 31, 2018, the Company:

- issued 354,089 common shares valued at $46,573 to settle an obligation to issue shares (Note 11d); and

- issued 168,282 common shares to the Managing Director of the Company to settle $21,883 of trade and other payables that resulted from fees incurred in fiscal 2017 (Note 11d).

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

- Issued 890,000 common shares on the exercise of options for proceeds of $133,419 (CAD$178,000); and

- Issued 16,559,152 common shares valued at $3,041,502 as consideration for the Sergeevskoe project (Note 7).

### c) 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, 2018 is as follows:

| Expiry date | Exercise price CAD$ | Balance, December 31, 2017 | Granted | Exercised | Forfeited | Balance, December 31, 2018 |
|---|---|---|---|---|---|---|
| September 2, 2020 | $ 0.20 | 480,000 | - | - | - | 480,000 |
| September 21, 2022 | $ 0.13 | 2,845,000 | - | - | - | 2,845,000 |
| | | 3,325,000 | - | - | - | 3,325,000 |
| **Weighted average exercise price - CAD$** | | $ 0.14 | $ - | $ - | $ - | $ 0.14 |

As at December 31, 2018, all stock options were exercisable with a weighted average remaining life of 3.43 years.

(Expressed in US dollars)

## 11. SHARE CAPITAL AND RESERVES (continued)

### c) Options (continued)

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 |

### d) Obligation to issue shares

The Company's three non-executive directors are paid an annual fee of $15,000. 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. In addition, the Company has engaged a consultant at the rate of $30,000 per 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, 2018, the Company recorded $67,500 (2017 - $68,456) as an obligation to issue shares with $67,500 (2017 - $46,573) recorded in equity and $Nil (2017 - $21,883) included in trade and other payables as the latter was subject to shareholder approval (received in fiscal 2018).

Subsequent to December 31, 2018, the Company issued 317,529 common shares to settle the obligation to issue shares of $67,500.

### e) Share-based compensation

During the year ended December 31, 2018, the Company recorded share-based compensation of $Nil (2017 - $369,739).

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.

(Expressed in US dollars)

## 12. ASSETS HELD FOR SALE

### *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. which in turn held 100% of Eildon Enterprises Limited, 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 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) |

The losses pertaining to the assets held for sale included in the consolidated statement of loss and comprehensive loss for the year ended December 31, 2017 were administrative expenses totalling $115,344.

(Expressed in US dollars)

## 12. 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 |

(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 compensation

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 year ended December 31, 2018 and 2017 were as follows:

| | | Year ended December 31, | |
|---|---|---|---|
| | | 2018 | 2017 |
| Salaries and benefits | | | |
| Sergey Kurzin | Director | $ 73,610 | $ 94,821 |
| Sergei Stefanovich | Director | 72,842 | 44,543 |
| Alexander Yakubchuk | Officer | 72,000 | 91,320 |
| Mark Corra | Director | 15,000 | 16,147 |
| David Rhodes | Director | 15,000 | 16,147 |
| Vladimir Pakhomov | Director | 15,000 | 9,274 |
| Doris Meyer & Dan O'Brien * | Officers | 116,282 | 115,612 |
| | | 379,734 | 387,864 |
| Share-based compensation | Directors & Officers | - | 279,416 |
| | | $ 379,734 | $ 667,280 |

*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.

### Amounts due to related parties

Included in trade and other payables as at December 31, 2018 is $Nil (2017 - $21,883) payable to the Managing Director of the Company for fees and $2,129 (2017 - $Nil) related to the reimbursement of expenditures.

### 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 held in Russia as at December 31, 2018.

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

*Financial Instruments*

Financial instruments are classified into one of the following categories: fair value through profit or loss (“FVTPL”); fair value through other comprehensive income (loss) (“FVTOCI”); or at amortized cost. The carrying values of the Company’s financial instruments are classified into the following categories:

| Financial Instrument | Category | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| Cash | FVTPL | $ 1,681,071 | $ 4,976,892 |
| Receivables | Amortized cost | 177,339 | 139,803 |
| Trade and other payables | Amortized cost | 55,454 | 178,401 |

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 carrying values of receivables and trade and other payables approximate their fair values due to their short-term nature. These financial instruments are classified as financial assets and liabilities at amortized cost and are reported at amortized cost. The carrying 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, 2018, the Company holds only 4% 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, 2018 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 change 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, 2018 | | Year ended December 31, 2017 | |
|---|---|---|---|---|
| Statutory tax rate | | 20.10% | | 20.10% |
| Loss for the year | $ | (3,134,319) | $ | (5,294,289) |
| Expected income tax recovery | $ | (846,000) | $ | (1,377,000) |
| Different tax rates of foreign jurisdictions | | 271,000 | | (1,882,000) |
| Tax effect of restructuring operations | | - | | 6,731,000 |
| Adjustment to prior years provision versus statutory tax returns | | (126,000) | | (1,078,000) |
| Non-deductible expenses | | 125,000 | | 15,000 |
| Change in benefits not recognised, deferred tax rates and other | | 576,000 | | (2,409,000) |
| Total | $ | - | $ | - |

(Expressed in US dollars)

## 17. INCOME TAXES (continued)

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

| | | December 31, 2018 | | December 31, 2017 |
|---|---|---|---|---|
| Deferred tax assets | | | | |
| Allowable capital losses | $ | 2,700,000 | $ | 2,643,000 |
| Non-capital losses available for future periods | | 770,000 | | 251,000 |
| Total unrecognized deferred tax assets | $ | 3,470,000 | $ | 2,894,000 |

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

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

| | | December 31, 2018 | Expiry date range |
|---|---|---|---|
| **Temporary differences** | | | |
| Allowable capital losses | $ | 10,000,000 | No expiry date |
| Non-capital losses available for future periods | | 3,779,000 | see below |
| **Non-capital loss summary** | | | |
| Russia | $ | 3,373,000 | no expiry date |
| Cyprus | | 103,000 | no expiry date |
| Canada | | 303,000 | 2031 to 2038 |

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