K92 MINING INC.

CONSOLIDATED FINANCIAL STATEMENTS

(Presented in United States Dollars)

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

Independent auditor's report

To the Shareholders of K92 Mining Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of K92 Mining Inc. and its subsidiaries (together, the Company) as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated statements of financial position as at December 31, 2019 and 2018;
- the consolidated statements of operations and comprehensive income for the years then ended;
- the consolidated statements of cash flows for the years then ended;
- the consolidated statements of changes in shareholders' equity (deficit) for the years then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

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

Independence

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. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

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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 identified above 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.

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 Dean Larocque.

(signed) PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 26, 2020

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

AS AT	December 31, 2019	December 31, 2018
ASSETS		
Current		
Cash and cash equivalents	$ 21,611,980	$ 6,205,616
Receivables (Note 5)	13,064,270	7,699,572
Inventory (Note 6)	11,506,645	3,797,601
Prepayments (Note 7)	1,045,687	1,561,109
	47,228,582	19,263,898
Deferred income tax assets (Note 21)	29,359,819	26,470,433
Deposits on equipment (Note 9)	317,802	-
Property, plant and equipment (Note 9)	78,083,919	42,034,195
	$ 154,990,122	$ 87,768,526
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities (Note 8)	$ 13,402,651	$ 9,545,955
CRH financing (Note 10)	-	5,331,814
Current portion of lease liabilities (Note 9)	390,201	394,125
Current portion of loan (Note 11)	8,389,846	-
	22,182,698	15,271,894
Lease liabilities (Note 9)	771,028	799,238
Loan (Note 11)	4,893,791	-
Reclamation and closure cost obligations (Note 12)	2,452,167	1,891,298
	30,299,684	17,962,430
Shareholders' equity		
Share capital (Note 13)	77,086,790	54,433,383
Preferred shares (Note 13)	-	1,018,876
Contributed surplus (Note 13)	12,128,822	11,140,889
Accumulated other comprehensive income	(580,013)	(299,438)
Retained earnings	36,054,839	3,512,386
	124,690,438	69,806,096
	$ 154,990,122	$ 87,768,526

Nature of business (Note 1)
Subsequent events (Note 24)

Approved and authorized by the Board of Directors on March 26, 2020:

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

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

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

For the years ended	December 31, 2019	December 31, 2018
REVENUE[1] (Note 18)	$ 101,692,600	$ 53,160,754
COST OF SALES (Note 19)	(48,015,928)	(29,759,236)
	53,676,672	23,401,518
EXPENSES		
Accretion expense (Note 12)	$ 164,867	$ 150,659
Consulting and administrative (Note 20)	2,212,703	2,314,626
Exploration and evaluation expenditures	7,931,984	1,793,486
Foreign exchange	272,233	21,056
Investor relations	466,213	333,515
Share-based payments	2,634,172	1,484,928
	$ (13,682,172)	$ (6,098,270)
OTHER		
Interest and finance expense	(1,865,083)	(416,576)
Fair value (loss) gain on gold purchase agreement (Note 10)	(1,022,359)	110,118
Amortization of deferred loss (Note 10)	(7,484,270)	(4,410,269)
Other	(264,590)	-
Income for the year before taxes	$ 29,358,198	$ 12,586,521
Deferred income tax recovery (Note 21)	(3,184,255)	(26,470,433)
Income for the year	$ 32,542,453	$ 39,056,954
Items that may be reclassified to net loss		
Other comprehensive income		
Cumulative translation adjustment	(280,575)	(173,922)
Comprehensive income for the year	$ 32,261,878	$ 38,883,032
Basic income per common share	$ 0.16	$ 0.22
Diluted income per common share	$ 0.16	$ 0.20
Weighted average number of common shares outstanding	202,236,651	176,311,452
Weighted average number of diluted common shares outstanding	209,583,083	191,291,272

[1] Revenue generated from concentrate sales from February 1, 2018, the date of declaration of commercial production.

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

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

For the years ended		December 31, 2019		December 31, 2018
CASH FROM OPERATING ACTIVITIES				
Income for the year	$	32,542,453	$	12,586,521
Items not affecting cash:				
Unrealized foreign exchange loss		(178,338)		(305,375)
Interest and finance expenses		262,742		416,576
Accretion expense (Note 12)		164,867		150,659
Amortization of deferred loss (Note 10)		7,484,270		4,410,269
Fair value loss (gain) on gold purchase agreement (Note 10)		1,022,359		(110,118)
Deferred income tax		(3,184,255)		-
Share-based payments (Note 13)		2,634,172		1,484,928
Depreciation and depletion (Note 9)		8,965,552		4,101,266
Changes in non-cash working capital items:				
Inventory		(7,709,044)		(1,751,965)
Receivables		(5,400,231)		(7,077,195)
CRH financing		(13,838,443)		(1,213,700)
Prepayments		515,422		(918,755)
Accounts payable and accrued liabilities		3,649,124		6,365,139
Net cash provided by operating activities		26,930,650		18,138,250
CASH FROM INVESTING ACTIVITIES				
Lease payments		-		(331,204)
Proceeds from pre-production concentrate sales		-		3,690,501
Deposits for equipment		(317,802)		-
Acquisition of mineral properties		(15,789,798)		-
Acquisition of property, plant and equipment		(28,326,524)		(18,181,658)
Net cash used in investing activities		(44,434,124)		(14,822,361)
CASH FROM FINANCING ACTIVITIES				
Proceeds on issuance of capital stock (Note 13)		15,672,078		5,140,870
Share issuance costs (Note 13)		(1,060,405)		(438,020)
Proceeds on exercise of warrants		3,083,302		3,066,120
Proceeds on exercise of stock options		2,293,317		301,998
Proceeds from loan (Note 11)		15,000,000		-
Loan transaction costs (Note 11)		(368,887)		-
Principal loan payments (Note 11)		(1,428,572)		-
Principal lease payments		(418,084)		-
Purchase of gold credits (Note 10)		-		(6,325,871)
Net cash provided by financing activities		32,772,749		1,745,097
Change in cash and cash equivalents during the year		15,269,275		5,060,986
Effect of foreign exchange on cash		137,089		(14,908)
Cash and cash equivalents, beginning of year		6,205,616		1,159,538
Cash and cash equivalents, end of year	$	21,611,980	$	6,205,616
Cash paid for interest	$	1,623,671	$	-
Cash paid for taxes	$	-	$	-

Supplemental disclosure with respect to cash flows (Note 17)

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

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

	Share capital						
	Number	**Amount**	**Preferred shares**	**Contributed surplus**	**Accumulated other comprehensive loss**	**Retained Earnings/ (Deficit)**	**Total**
Balance at December 31, 2017	161,746,910	$ 46,626,267	$ 1,018,876	$ 9,366,514	$ (125,516)	$ (35,544,568)	$ 21,341,573
Private placements	14,444,500	4,434,074	-	706,796	-	-	5,140,870
Share issuance costs, cash	-	(438,020)	-	-	-	-	(438,020)
Share issuance costs, warrants	-	(138,921)	-	138,921	-	-	-
Exercise of warrants	4,514,109	3,507,712	-	(441,592)	-	-	3,066,120
Exercise of stock options	745,700	442,271	-	(140,273)	-	-	301,998
Share-based payments (Note 13)	-	-	-	1,510,523	-	-	1,510,523
Cumulative translation adjustment	-	-	-	-	(173,922)	-	(173,922)
Income for the year	-	-	-	-	-	39,056,954	39,056,954
Balance at December 31, 2018	181,451,219	54,433,383	1,018,876	11,140,889	(299,438)	3,512,386	69,806,096
Conversion of preferred shares	9,503,662	1,018,876	(1,018,876)	-	-	-	-
Private placement	10,895,100	15,672,078	-	-	-	-	15,672,078
Share issuance costs, cash	-	(1,060,405)	-	-	-	-	(1,060,405)
Exercise of warrants	6,317,406	3,670,256	-	(586,954)	-	-	3,083,302
Exercise of stock options	4,877,300	3,352,602	-	(1,059,285)	-	-	2,293,317
Share-based payments (Note 13)	-	-	-	2,634,172	-	-	2,634,172
Cumulative translation adjustment	-	-	-	-	(280,575)	-	(280,575)
Income for the year	-	-	-	-	-	32,542,453	32,542,453
Balance at December 31, 2019	213,044,687	$ 77,086,790	$ -	$ 12,128,822	$ (580,013)	$ 36,054,839	$124,690,438

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

1. NATURE OF BUSINESS

K92 Mining Inc. (the "**Company**") was incorporated pursuant to the provisions of the Business Corporations Act (British Columbia) on March 22, 2010. The Company's shares are listed on Tier 1 of the TSX Venture Exchange ("**TSX-V**") under the symbol KNT and the OTCQB under the symbol KNTNF. The Company is currently engaged in the exploration, development and mining of mineral deposits in Papua New Guinea, specifically the Kainantu Project.

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

2. BASIS OF PREPARATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial instruments measured at fair value.

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

Significant accounting judgements, estimates and assumptions

The preparation of consolidated financial statements requires management to make estimates about, and apply assumptions or judgment to, future events and other matters that affect the reported amounts of the Company's assets, liabilities, revenues, expenses and related disclosures. Assumptions, estimates and judgments are based on historical experience, expectations, current trends and other factors that management believes to be relevant at the time at which the Company's consolidated financial statements are prepared.

Key sources of estimation uncertainty that have a risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next twelve months are summarized below:

Depletion and depreciation of property, plant and equipment

Property, plant and equipment is the largest component of the Company's assets and, as such, the depreciation of these assets has a significant effect on the Company's financial statements.

Mining plant and equipment and other capital assets are depreciated over their expected economic lives using either the units of production method or the straight-line method. Depletion of each mineral property interest is provided on the units of production basis using estimated Measured and Indicated ("M&I") and a portion of inferred resources as the depletion basis. Significant judgment is involved in the determination of useful lives of long-lived assets. A change in the estimated useful life or residual value of a long-lived asset would result in a change in the rate of deprecation for that asset.

For long-lived assets that are depleted or depreciated over the M&I and inferred resources using the units of production method, a change in the original estimate of the M&I or inferred resources would result in a change in the rate of depletion or depreciation.

2. BASIS OF PREPARATION (cont'd…)

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

Impairment indicator of property, plant and equipment

Property, plant and equipment are tested for impairment when events or changes in circumstance indicate that the carrying value may be higher than the recoverable amount. Judgement is required in assessing whether certain factors would be considered an indicator of impairment. Management considers both internal and external information to determine whether there is an indicator of impairment.

Achievement of Commercial Production

Once a mine reaches the operating levels intended by management, depreciation of capitalized costs begins. Significant judgment is required to determine when certain assets of the Company's reach this level. Management considers several factors including, completion of a reasonable period of commissioning, consistent operating results are being achieved at a pre-determined level of design capacity and production of pre-designed gold production.

Rehabilitation and restoration provision

The Company has obligations for the future restoration of its mining tenements. In most instances, removal of assets and restoration of surrounding area occurs many years into the future. This requires judgmental assumptions regarding removal date, the extent of reclamation activities required, the engineering methodology for estimating cost, future removal technologies in determining removal cost, and asset specific discount rates to determine the present value of these cash flows.

Income tax

The determination of income tax is inherently complex and requires making certain estimates and assumptions about future events. The Company determines if a deferred tax asset should be recorded and if so, estimates the amount through taxable income projection models. Additionally, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in our provision for income taxes.

Mineral Resources

Mineral resource estimates are based on various assumptions relating to operating matters set forth in National Instrument 43-101. These include production costs, mining and processing recoveries, cut-off grades, long term commodity prices, and inflation rates. Cost estimates are based on preliminary economic assessment estimates or operating or operating history, and estimates are prepared by appropriately qualified persons (as defined in National Instrument 43-101).

Estimated recoverable resources are used to determine the depreciation of property, plant and equipment, as an input to the projection of future taxable profits which support assessments of deferred income tax recoverability and to forecast the timing of the payment of decommissioning obligations.

2. BASIS OF PREPARATION (cont'd…)

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

Share-based payments

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

Determination of functional currency

The functional currencies of the Company and its subsidiaries are outlined in Note 3, Foreign Exchange. The functional currency determination was conducted through an analysis of the consideration factors identified in IAS 21, The Effects of Changes in Foreign Exchange Rates. The determination of functional currency involves certain judgments to determine the primary economic environment and the Company reconsiders the functional currency if there are changes in events and conditions of the factors used in the determination of the primary economic environment.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

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

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

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

Earnings per share

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Cash and equivalents

Cash and cash equivalents comprise cash on deposit with banks and highly liquid short-term interest-bearing investments with a term to maturity at the date of purchase of 90 days or less which are subject to an insignificant risk of change in value.

Impairment

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

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

Valuation of equity units issued in private placements

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

Foreign exchange

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

The Effects of Changes in Foreign Exchange Rates

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Income taxes

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

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

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

Provisions

Environmental rehabilitation provisions

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

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

Other provisions

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Inventory

Ore stockpile and gold concentrate are measured at the lower of cost and net realizable value. Cost is determined on a weighted average basis and includes all expenditures directly attributable to mineral extraction, processing and overheads that are incurred in extracting and processing ore. Net realizable value is determined with reference to relevant market prices, less estimated costs of completion (including royalties payable).

Mine supplies, consumables and fuel inventory are valued at the lower of average cost and net realizable value. Costs include acquisition, freight and other directly attributable costs. A periodic review is undertaken to determine the extent of any provision for obsolescence.

Contingent liabilities

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

Exploration and evaluation assets

Exploration and evaluation licenses

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

Exploration and evaluation expenditures

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Property, plant and equipment

The following table outlines the methods used to depreciate property, plant and equipment:

Mineral properties	Units of production
Plant and equipment	Units of production
Vehicles	Straight line 3 years
Office equipment	Straight line 3 years
Mobile fleet	Straight line 4 years
Equipment under finance lease	Straight line 4 years
Infrastructure – plant and residence camp	Straight line 9 years

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

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

Revenue Recognition

Revenue is generated from the sale of metals in concentrate.

The Company produces gold concentrate, which also includes copper and silver. The Company's performance obligations relate primarily to the delivery of concentrate to customers, with each shipment representing a separate performance obligation.

Revenue from the sale of gold concentrate is recognized at the point the customer obtains control of the product. Control is transferred when title has passed to the purchaser and the customer controls the risks and rewards of ownership and the Company has a present right to a payment for the product. Control over gold concentrate is transferred to the customer and revenue is recognized when the material reaches the port of Lae, Papua New Guinea, is assayed, and delivered to an off-taker designed storage warehouse located at the port.

Gold concentrate is sold under provisional pricing arrangements where final prices are determined by market prices subsequent to the date of sale (the Quotational Period or "**QP**"). Revenue from concentrate sales is recorded at the amounts estimated to be received on the date the criteria for recognizing revenue are met. Adjustments are made to settlements receivable in subsequent periods based on fluctuations in market prices until the date of final metal pricing. These subsequent changes in the fair value of settlements receivable are recorded in revenue but shown separately from revenue arising from contracts with customers.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

Financial instruments

Financial assets

Financial assets are classified as either financial assets at affair value through profit or loss, amortized cost, or fair value through other comprehensive income. The Company determines the classification of its financial assets at initial recognition.

a) Fair value through profit or loss ("**FVTPL**") – financial assets are classified as fair value through profit or loss if they do not meet the criteria of amortized cost or fair value through other comprehensive income. Changes in fair value are recognized in the consolidated statement of operations and comprehensive income (loss).

b) Amortized cost – financial assets are classified as measured at amortized cost if both of the following criteria are met and the financial assets are not designated as FVTPL: 1) The objective of the Company's business model for these financial assets is to collect their contractual cash flows; and 2) the assets contractual cash flow represents solely payments of principal and interest.

Financial liabilities

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

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

The Company's cash and cash equivalents, account receivables, and accounts payable and accrued liabilities are recorded at amortized cost. The Company's settlement receivables are recorded at FVTPL.

Impairment of financial assets

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit loss for performing assets and the lifetime expected credit loss if the credit risk on the financial assets has increased significantly since initial recognition. Impairment losses on financial assets carried at amortized cost are reversed in subsequent periods if the expected credit losses are reversed after the impairment was recognized.

Settlement receivables

Settlement receivables are amounts due from customers for the sale of gold concentrate in the ordinary course of business.

Settlement receivables arise from the sale of gold concentrates. Settlement receivables are classified as fair value through profit and loss and are recorded at fair value at each reporting period. Changes in fair value of settlements receivable are recorded as a separate component of revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New standards adopted

IFRS 16 – Leases

The Company adopted IFRS 16 - Leases ("**IFRS 16**") on January 1, 2019. The objective of the new standard is to eliminate the classification of leases as either operating or financing leases for a lessee and report all leases on the statement of financial position. The only exemption to this will be for leases that are one year or less in duration or for leases of assets with low values. Under IFRS 16 a lessee is required to recognize a right-of-use asset, representing its right to use the underlying asset, and a lease liability, representing its obligations to make lease payments. IFRS 16 also changes the nature of expenses relating to leases, as lease expenses previously recognized for operating leases are replaced with depreciation expense on capitalized right-of-use assets and finance or interest expense for the corresponding lease liabilities associated with the capitalized right-of-use leased assets.

The Company adopted IFRS 16 using the modified retrospective approach and did not restate comparative amounts for the year prior to first adoption. For all leases, the lease liability was measured at January 1, 2019 as the present value of any future minimum lease payments discounted using the appropriate incremental borrowing rate. The associated right of use assets was measured at the amount equal to the lease liability on January 1, 2019. The Company's accounting for finance leases remained substantially unchanged.

The following leases accounting policies have been applied as of January 1, 2019 on adoption of IFRS 16. For comparative periods prior to 2019, we applied leases policies in accordance with IAS 17, Leases and IFRS 4, Determining Whether an Arrangement Contains a Lease.

At inception of a contract, we assess whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. We assess whether the contract involves the use of an identified asset, whether we have the right to obtain substantially all of the economic benefits from use of the asset during the term of the arrangement and if we have the right to direct the use of the asset. At inception or on reassessment of a contract that contains a lease component, we allocate the consideration in the contract to each lease component on the basis of their relative standalone prices.

As a lessee, we recognize a right-of-use asset, which is included in property, plant and equipment, and a lease liability at the commencement date of a lease. The right-of-use asset is initially measured at cost, which is comprised of the initial amount of the lease liability adjusted for any payments made at or before the commencement date, plus any decommissioning and restoration costs, less any lease incentives received.

The right-of-use asset is subsequently depreciated from the commencement date to the earlier of the end of the lease term, or the end of the useful life of the asset. In addition, the right-of-use asset may be reduced due to impairment losses, if any, and adjusted for certain measurements of the lease liability.

(Presented in United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New standards adopted (cont'd…)

IFRS 16 – Leases (cont'd…)

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by the interest rate implicit in the lease, or if that rate cannot be readily determined, the incremental borrowing rate. Lease payments included in the measurement of the lease liability are comprised of:

- fixed payments, including in-substance fixed payments, less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- exercise prices of purchase options if we are reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if there is a change in our estimate or assessment of the expected amount payable under a residual value guarantee, purchase, extension or termination option. Variable lease payments not included in the initial measurement of the lease liability are charged directly to profit.

As part of the initial application of IFRS 16, we have elected not to recognize right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The lease payments associated with these leases are charged directly to profit on a straight-line basis over the lease term.

We adopted IFRS 16 as at January 1, 2019 in accordance with the transitional provisions outlined in the standard, using a cumulative catch-up approach where we have recorded leases from that date forward and have not restated comparative information.

We have recorded an office lease right-of-use asset of $448,236 within property, plant and equipment, measured at either an amount equal to the lease liability or their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using our incremental borrowing rate on January 1, 2019. We have recorded lease liabilities of $448,236 as at January 1, 2019.

Reconciliation of lease liabilities as of January 1, 2019:

Reconciliation of lease liabilities		January 1, 2019
Future aggregate minimum lease payments under operating leases at December 31, 2018	$	761,823
Effect of discounting at the incremental borrowing rate		(313,587)
Total lease liabilities as at January 1, 2019	$	448,236

The weighted average incremental borrowing rate for lease liabilities initially recognized as of January 1, 2019 was 10%.

(Presented in United States Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd…)

New standards adopted (cont'd…)

IFRIC 23 – Uncertainty over Income Tax Treatments

The Company adopted IFRIC 23 – Uncertainty over Income Tax Treatments on January 1, 2019. IFRIC 23 clarifies the recognition and measurement requirements when there is uncertainty over income tax treatments. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

4. ACQUISITION OF BARRICK (KAINANTU) LIMITED

Through its wholly owned subsidiary, K92 Holdings (PNG) Limited ("**K92PNG**"), on June 11, 2014, K92 International Holdings Limited ("**K92 Intl**") entered into a Share Sale Agreement ("**SSA**") with Barrick (Niugini) Limited ("**Barrick**"), Mt Apex Investment Holdings Limited ("**Apex**"), and Otterburn Resource Corp., whereby K92PNG agreed to acquire all of the outstanding shares of Barrick's wholly owned Papua New Guinea subsidiary, Barrick (Kainantu) Limited ("**Kainantu**"), that holds certain assets and mineral rights and interests in Papua New Guinea.

As consideration, K92PNG paid $2,000,000 and upon achievement of certain milestones, a contingent payment of up to $60,000,000. On July 17, 2019, the Company entered into an amendment agreement with Barrick Gold Corporation revising the contingent payment to a fixed payment of $12,500,000 paid on August 23, 2019, capitalized as part of additions to Mineral Properties (Note 9). The Company paid $275,139 (AUD$400,000) in agent fees in connection with the amendment agreement, capitalized as part of additions to Mineral Properties (Note 9).

Pursuant to the PNG Mining Act, a 2% net smelter returns royalty, and a 0.50% (previously 0.25%, effective May 29, 2019) levy on gross mine revenues are payable to the PNG government.

5. RECEIVABLES

AS AT	December 31, 2019	December 31, 2018
Accounts receivable	$ 3,003,690	$ 1,145,104
Settlement receivables	5,318,091	6,060,893
Pricing adjustments	1,731,842	447,930
GST receivable	2,913,258	-
Other	97,389	45,645
Total	$ 13,064,270	$ 7,699,572

(Presented in United States Dollars)

6. INVENTORY

AS AT		December 31, 2019		December 31, 2018
Mine supplies, consumables and fuel	$	6,591,962	$	2,842,750
Ore stockpile		1,982,802		771,195
Gold concentrate		2,931,881		183,656
Total	$	11,506,645	$	3,797,601

7. PREPAYMENTS

Prepayments of $1,045,687 (2018 - $1,561,109) relate to consumable inventory, insurance and investor relations.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

AS AT		December 31, 2019		December 31, 2018
Trade payables	$	3,258,426	$	5,455,636
Accruals and provisions		6,487,995		2,438,232
Landowners compensation		3,656,230		1,652,087
Total	$	13,402,651	$	9,545,955

Landowners' compensation

The Company has obligations to compensate landowners annually who are affected by the operations of the Kainantu mine. These compensations are governed by the Papua New Guinean Mining Act 1992 and land and environment compensation agreement ("**CA**") for Mining Lease 150 ("**ML 150**") that the prior owner of the Kainantu mine entered into with the Billmoia Landowners Association Incorporation ("**BLA**") and certain landowners / clans listed in the agreement. The actual recipients of the compensation determined under the CA and landowners' share of sales royalty could not be paid as required under the CA until the legitimate landowners were identified by the Papua New Guinean Land Titles Commission ("**LTC**") and so compensation payments have been accrued but not paid.

(Presented in United States Dollars)

9. PROPERTY, PLANT AND EQUIPMENT

	Mineral Properties	Plant and Equipment	Mobile Fleet and Vehicles	Right-of-use assets	Construction in Progress (Expansion)[1]	Total
Cost						
Balance, December 31, 2017	$ 26,716,969	$ 8,906,715	$ 2,183,014	$ 318,494	$ -	$ 38,125,192
Additions	4,485,577	2,617,243	4,382,362	1,195,790	-	12,680,972
Change in reclamation and closure obligation estimate (Note 12)	(421,850)	-	-	-	-	(421,850)
Capitalized pre-production concentrate sales	-	(3,690,501)	-	-	-	(3,690,501)
Balance, December 31, 2018	30,780,696	7,833,457	6,565,376	1,514,284	-	46,693,813
Changes in new standard adopted January 1, 2019 (Note 3)	-	-	-	439,089	-	439,089
Additions	6,692,571	813,435	1,081,495	-	20,198,888	28,786,389
Acquisition costs[2]	15,789,798	-	-	-	-	15,789,798
Transfers from construction in progress	-	2,826,951	6,980,998	-	(9,807,949)	-
Balance, December 31, 2019	$ 53,263,065	$ 11,473,843	$ 14,627,869	$ 1,953,373	$ 10,390,939	$ 91,709,089
Accumulated depreciation						
Balance, December 31, 2017	$ -	$ 403,974	$ 140,187	$ 14,191	$ -	$ 558,352
Depreciation and depletion for the year	1,825,580	541,384	1,506,897	227,405	-	4,101,266
Balance, December 31, 2018	1,825,580	945,358	1,647,084	241,596	-	4,659,618
Depreciation and depletion for the year	4,544,494	1,182,709	2,772,633	465,716	-	8,965,552
Balance, December 31, 2019	$ 6,370,074	$ 2,128,067	$ 4,419,717	$ 707,312	$ -	$ 13,625,170
Carrying amounts						
As at December 31, 2018	$ 28,955,116	$ 6,888,099	$ 4,918,292	$ 1,272,688	$ -	$ 42,034,195
As at December 31, 2019	$ 46,892,991	$ 9,345,776	$ 10,208,152	$ 1,246,061	$ 10,390,939	$ 78,083,919

[1] Construction in Progress at December 31, 2019 consists of $5,044,304 in stage 2 expansion costs, $4,327,233 in twin incline expansion costs and $1,019,402 in other expansion costs.
[2] Acquisition costs during the year ended December 31, 2019 consists of $12,500,000 paid to Barrick (Note 4), $275,139 in agent fees related to the amending agreement with Barrick (Note 4) and a $3,014,659 payment to extinguish the NSR on the Kora and Irumafimpa deposits (Note 10).

(Presented in United States Dollars)

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

The lease liability for assets under lease at December 31, 2019 was $1,161,229 (2018 - $1,193,363). Assets under lease are included in right-of-use assets within property, plant and equipment. Company has recorded the following as leases:

	December 31, 2019	December 31, 2018
Office lease payable in monthly instalments of $10,890 (CAD$14,232). Matures March 2023. $270,980 relates to payments later than 1 year.	$ 369,173	$ 125,959
Equipment lease payable in monthly instalments of $30,169 (Papua New Guinea Kina 102,791). Matures June 2022. The Company does have the ability to purchase the assets at the end of the lease or renew for an additional two-year period. $500,048 relates to payments later than 1 year.	792,056	1,067,404
Present value of future minimum lease payments	$ 1,161,229	$ 1,193,363
Lease liabilities, current portion	$ 390,201	$ 394,125
Lease liabilities, non-current portion	$ 771,028	$ 799,238

Deposits on equipment

The Company has made deposits on equipment of $317,802 (2018 - $Nil) related to the expansion of the mine.

Title to mineral properties

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

Mining Lease 150 ("ML 150")

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

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

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

The Company holds or applied for renewal certain exploration licenses adjacent to the Company's ML 150. Upon acquisition (Note 4) the Company did not assign any value to these licenses.

(Presented in United States Dollars)

10. CRH FINANCING

Gold prepayment agreement

On February 4, 2016, amended May 25, 2018, the Company entered into financing agreements with CRH Funding II Pte. Ltd. ("**CRH**"), an affiliate of Cartesian Royalty Holdings and Cartesian Capital Group, consisting of a gold prepayment investment and an equity investment. Upon signing, the Company drew down the first tranche under the gold prepayment agreement (the "**GPA**"), which as per the GPA must be used for project related expenditures.

Under the GPA, CRH provided the Company with $4,813,974 in exchange for a percentage of gold produced at the Irumafimpa and Kora deposits over a 36-month period, subject to a minimum of 18,000 ounces of gold and a maximum of 20,000 ounces of gold.

The Company made the remaining deliveries of gold ounces during the current period and as a result the balance of the CRH financing liability at December 31, 2019 is $Nil:

CRH Financing Liability	December 31, 2019	December 31, 2018
CRH liability, beginning of year	$ 12,816,084	$ 20,003,724
Add:		
Fair value adjustment	1,022,359	(110,118)
Delivery of gold ounces or cash equivalent during the year	(14,169,542)	(7,539,571)
Interest	331,099	430,607
Capitalized interest	-	31,442
Balance, end of period	-	12,816,084
Less:		
Deferred loss, beginning of year	7,484,270	11,894,539
Amortization of deferred loss based on delivered ounces	(7,484,270)	(4,410,269)
	-	(7,484,270)
Balance, end of year	$ -	$ 5,331,814
CRH financing liability, short-term	$ -	$ 5,331,814
CRH financing liability, long-term	$ -	$ -

(Presented in United States Dollars)

10. CRH FINANCING (cont'd…)

The gold prepayment liability is $Nil at December 31, 2019, as such was not remeasured at the end of the period. The gold prepayment liability at December 31, 2018 ($12,816,084) was calculated using the following assumptions:

	December 31, 2019	December 31, 2018
Discount rate	-	6.30%
Expected life of gold stream	-	10 months
Expected remaining repayment in gold ounces	-	10,272
Future gold price per ounce	-	$1,280

The difference of cash received of $962,795 and the initial fair value of the gold prepayment liability of $15,534,971 was recorded as a deferred loss. The deferred loss was amortized as the gold ounces or equivalent are delivered under the contract.

As security for the Company's obligations under the GPA, the Company granted CRH a comprehensive general security interest in all of the Company's present and future property, together with specific security granted by the Company's subsidiaries in Papua New Guinea. In conjunction with the final gold delivery during the year ended December 31, 2019, CRH no longer holds a security interest in the Company's property.

As additional consideration for the financing, the Company's wholly owned subsidiaries in Papua New Guinea granted CRH an amended 0.50% (originally 0.25%) net smelter return ("**NSR**") royalty on Kora and a 0.50% NSR on Irumafimpa. For the year ended December 31, 2019, the Company paid an NSR of $202,208 (2018 - $102,038).

On May 31, 2019, the Company purchased back the Kora and Irumafimpa NSR's for a purchase price of $3,014,659 (CAD$4,000,000), capitalized as part of additions to Mineral Properties (Note 9).

CRH will be entitled to representation on the board of directors of the Company so long as CRH maintains at least a 5% equity ownership in the Company. As of December 31, 2019, the GPA no longer remains outstanding and CRH has less than a 5% equity ownership interest in the Company.

11. LOAN

On July 1, 2019, the Company and Trafigura Pvt. Ltd. ("**Trafigura**") entered into a loan agreement pursuant to which Trafigura provided a $15,000,000 loan (the "**Loan**") to the Company to be repaid over 2 years (three-month payment holiday), bearing interest at 10% + 3-month LIBOR per annum. As at December 31, 2019, the Company recorded accrued interest of $146,126 to accruals and provisions (Note 8).

The loan has been designated a financial liability at amortized cost and is recorded net of transaction costs and amortized over the 2-year life using an effective interest rate of 13.13%, calculated based on the current 3-month LIBOR. For the year ending December 31, 2019, the Company incurred $368,887 in transaction costs associated with the loan and a total of $81,096 (2018 – $Nil) of amortization of the transaction costs were recorded within interest and finance expenses in the statement of operations.

(Presented in United States Dollars)

11. LOAN (cont'd…)

The loan agreement provides that in certain circumstances of default, Trafigura may accelerate repayment of the loan. Subject to a grace period, if the Loan is not then repaid, Trafigura may convert all or any portion of the Loan into common shares of the Company at a conversion price equal to US$1.3794 per share. The Company is not in default of the loan agreement as at December 31, 2019.

Loan		December 31, 2019	December 31, 2018
Balance, beginning of year	$	-	-
Loan proceeds, net of transaction costs		14,631,113	-
Principal payments		(1,428,572)	-
Amortization of transaction costs		81,096	-
Balance, end of year	$	13,283,637	-
Loan, current portion	$	8,389,846	-
Loan, non-current portion	$	4,893,791	-

12. RECLAMATION AND CLOSURE COST OBLIGATIONS

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

		December 31, 2019		December 31, 2018
Balance – beginning of year	$	1,891,298	$	2,354,323
Foreign exchange movement		(2,404)		(191,834)
Change in estimates		398,406		(421,850)
Accretion		164,867		150,659
Balance, end of year	$	2,452,167	$	1,891,298

The provision has been measured at the estimated value of future rehabilitation costs and estimated remaining mine life of 12 years. The estimated cash-flows were discounted to present value using a risk-free discount rate of 7.35% (2018 – 8.59%).

Periodically the Company reviews the estimate of future costs of the requisite reclamation and closure work required by current legislative standards. The current total estimate for all properties anticipates undiscounted future cash outflows to meet required legislative standards for reclamation and closure work in the amount of $6,283,743, with first expenditures anticipated in 2031 (2018 - 2031). These future cash outflows have been discounted at the risk-free interest rate considered applicable in Papua New Guinea where the Company's properties are located.

13. SHARE CAPITAL AND RESERVES

Authorized share capital

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

(Presented in United States Dollars)

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

Issued share capital

As at December 31, 2019, the Company had 213,044,687 common shares issued and outstanding.

Share issuances

During the year ended December 31, 2019, the Company:

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

b) Completed a private placement by issuing 9,474,000 common shares at a price of CAD$1.90 per common share for gross proceeds of CAD$18,000,600 ($13,627,894). As part of the financing, the Company issued 1,421,100 agent options to the underwriters which were then exercised providing an additional CAD$2,700,090 ($2,044,184) or CAD$20,700,690 ($15,672,078) in aggregate. The Company paid $1,022,922 in cash commissions and $37,483 in other costs related to the financing.

During the year ended December 31, 2018, the Company completed a private placement by issuing 14,444,500 units at a price of CAD$0.45 per unit for gross proceeds of CAD$6,500,025. Each unit consisted of one common share and one-half of one common share purchase warrant, which each warrant entitling the holder to purchase one common share at a price of CAD$0.65 for 18 months from closing. As part of the financing, the Company issued 1,011,115 agent warrants with the same terms as above with a fair value of $138,921 using the Black-Scholes pricing model and paid $438,020 as share issuance costs.

Stock options and warrants

Stock option and warrant transactions are summarized as follows:

	Warrants			Stock options		
	Number		Weighted Average Exercise Price (CAD)	Number		Weighted Average Exercise Price (CAD)
Outstanding, December 31, 2017	36,392,976	$	1.03	13,910,600	$	0.64
Granted / Issued	8,233,365		0.65	4,660,000		0.77
Exercised	(4,515,109)		0.88	(745,700)		0.53
Forfeited	-		-	(1,440,800)		0.81
Expired	(33,792,976)		1.03	-		-
Outstanding, December 31, 2018	6,318,256	$	0.65	16,384,100	$	0.67
Granted / Issued	-		-	4,805,000		1.77
Exercised[3]	(6,317,406)		0.65	(4,877,300)		0.63
Forfeited	-		-	(351,700)		1.01
Expired	(850)		0.65	-		-
Outstanding, December 31, 2019	-	$	-	15,960,100	$	1.01
Number currently exercisable	-	$	-	13,618,050	$	0.86

[3] The weighted average share price on the exercise date for the stock options exercised during the year ended December 31, 2019 was CAD$1.49.

(Presented in United States Dollars)

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

Stock options outstanding

The following incentive stock options were outstanding at December 31, 2019:

Number	Exercise price (CAD)	Expiry date
3,699,000	$ 0.45	May 20, 2021
100,000	1.93	July 29, 2021
1,790,000	1.00	December 5, 2021
2,370,000	0.65	October 23, 2022
120,000	0.60	March 9, 2023
1,750,000	0.85	April 30, 2023
1,563,200	0.74	November 19, 2023
250,000	1.10	January 31, 2024
2,026,500	1.67	May 30, 2024
619,800	1.85	July 4, 2024
1,246,600	1.92	September 16, 2024
150,000	1.92	September 23, 2024
50,000	2.13	October 1, 2024
225,000	2.17	November 22, 2024
15,960,100		

Share-based payments

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The fair value of stock options is determined by the Black-Scholes Option Pricing Model with assumptions for risk-free interest rates, dividend yields, volatility factors of the expected market price of the Company's shares, forfeiture rate, and expected life of the options. Under the plan the exercise price of each option equals the market price of the Company's stock, less applicable discount, as calculated on the date of grant.

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

FOR THE YEAR ENDED	December 31, 2019	December 31, 2018
Risk-free interest rate	1.51%	2.15%
Expected life of options	4.0 years	4.5 years
Annualized volatility	62.96%	74.73%
Dividend rate	0.00%	0.00%
Forfeiture rate	1.29%	5.00%

The weighted average fair value of the options granted during the year was CAD$0.84 (2018 - CAD$0.45).

During the year ended December 31, 2019, the Company recorded stock-based compensation expense of $2,634,172 (2018 – $1,484,929).

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and liabilities are classified in the fair value hierarchy according to the lowest level of input that is significant to the fair value measurement. Assessment of the significance of a particular input to the fair value measurement requires judgement and may affect placement within the fair value hierarchy levels. The hierarchy is as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quotes prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The carrying values of cash, trade and other receivables, and trade and other payables approximate their fair values due to the short-term nature of these instruments. The amortized cost of the loan approximates its fair value due to the nature of the instrument.

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

Financial risk factors

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

Credit risk

Credit risk is the risk of potential loss to the Company if the counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash and cash equivalents and receivables. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and cash equivalents with high-credit quality financial institutions. Expected credit losses on accounts receivables do not have a material impact on the Company's consolidated financial statements at December 31, 2019.

Liquidity risk

The Company has in place a planning and budgeting process to manage its liquidity risk and ensure it has sufficient liquidity to meet liabilities when due. As at December 31, 2019, the Company had a cash and cash equivalents balance of $21,611,980 (2018 - $6,205,616), operating cash-flow for the year ended December 31, 2019 of $26,930,650 (2018 – $18,138,250) to settle current liabilities of $22,182,698 (2018 - $15,271,894). All of the Company's accounts payable and accrued liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

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

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company does not have a practice of trading derivatives.

a) Interest rate risk

The Company's financial assets exposed to interest rate risk consist of cash and cash equivalents balances. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As at December 31, 2019, the Company did not have any investments in investment-grade short-term deposit certificates. The Company's Loan with Trafigura is exposed to interest rate risk as interest payments are calculated using the 3-month LIBOR rate. Based on the loan balance of $13,283,637 at December 31, 2019, for every 0.1% increase in LIBOR rates (10 basis point increase), annual net income would decrease by $13,284.

b) Foreign currency risk

The Company's foreign exchange risk arises from transactions denominated in currencies other than the Company's reporting currency, which is United States Dollars. Through this, the Company is exposed to foreign currency risk on fluctuations related to cash and cash equivalents, receivables, prepayments, accounts payable and accrued liabilities and reclamation and closure costs obligations that are denominated in Australian Dollars, Papua New Guinea Kina, United States Dollar and Canadian Dollars. The Company does not use derivative instruments to reduce its exposure to foreign currency risk nor has it entered into foreign exchange contracts to hedge against gains or losses from foreign exchange fluctuations. As these exchange rates fluctuate against the United States Dollar, the Company will experience foreign exchange gains and losses.

c) Price risk

The Company is exposed to commodity price risk from fluctuations in market prices of the commodities that the Company produces. Gold concentrate is "provisionally priced" whereby the selling price is subject to final adjustment at the end of a period normally ranging from 30 to 90 days after delivery to the customer. Revenue is recognized on provisionally priced sales based on estimates of fair value of the consideration receivable which is based upon current market prices. At each reporting date, the provisionally priced embedded derivative is marked to market based on the estimated settlement price.

15. CAPITAL MANAGEMENT

The Company's primary objectives in capital management are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and to maintain sufficient funds to finance the development of the acquired Kainantu mine. Capital is comprised of the Company's shareholders' equity. The Company manages its capital structure to maximize its financial flexibility making adjustments to it in response to changes in economic conditions and the risk characteristics of the underlying assets and business opportunities.

The Company intends to continue to assess new resource properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents and investments.

(Presented in United States Dollars)

16. SEGMENTED INFORMATION

Operating segments are components of an entity that engage in business activities from which they incur expenses and whose operating results are regularly reviewed by a chief operating decision maker to make resource allocation decisions and to assess performance. The Chief Executive Officer is responsible for allocating resources and reviewing operating results of each operating segment on a periodic basis.

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

Year ended December 31, 2019	Papua New Guinea	Canada	Total
Net Income (loss)	$ 48,076,153	$ (15,533,700)	$ 32,542,453

Year ended December 31, 2018	Papua New Guinea	Canada	Total
Net Income (loss)	$ 47,570,734	$ (8,513,780)	$ 39,056,954

17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the year ended December 31, 2019, the Company:

a) Converted 5,000,000 preferred shares into common shares of the Company with a value of $1,018,876;

b) Transferred 10,272 gold credits or equivalent to CRH as part of the GPA (Note 10); and

c) Applied a change of the Company's environmental and closure estimate of $398,406 (Note 12) to property, plant and equipment.

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

a) Issued finder warrants with a fair value of $138,921 as share issuance costs;

b) Capitalized share-based payments of $25,595 to mineral properties;

c) Applied a change of the Company's environmental and closure estimate of $421,850 (Note 12) to property, plant and equipment; and

d) Transferred 6,053 gold credits or equivalent to CRH as part of the GPA (Note 10).

(Presented in United States Dollars)

18. REVENUE

FOR THE YEAR ENDED	December 31, 2019	December 31, 2018
Gold in concentrate	$ 100,941,548	$ 52,187,681
Copper in concentrate	1,527,821	1,124,755
Silver in concentrate	43,439	47,901
Treatment and refining charges	(3,250,994)	(647,513)
Revenue from contracts with customers	99,261,814	52,712,824
Pricing adjustments	2,430,786	447,930
Total	$ 101,692,600	$ 53,160,754

Revenue is generated from concentrate sales from February 1, 2018, the date of declaration of commercial production. Proceeds from the sale of concentrate during the commissioning phase of the operations was recorded as pre-production revenue credited against property, plant and equipment (Note 9).

19. COST OF SALES

FOR THE YEAR ENDED	December 31, 2019	December 31, 2018[4]
Direct mining and milling	$ 11,662,979	$ 8,801,721
Maintenance	8,573,984	4,310,068
Other site costs	15,899,498	10,967,060
Net smelter royalties	3,016,974	1,610,063
Depreciation and depletion	8,862,493	4,070,324
Total	$ 48,015,928	$ 29,759,236

20. CONSULTING AND ADMINISTRATIVE

FOR THE YEAR ENDED	December 31, 2019	December 31, 2018
Management, consulting and wages	$ 1,224,569	$ 883,702
Professional fees	175,589	271,947
Office, filing and administrative	350,444	906,453
Travel	359,087	252,524
Depreciation	103,014	-
Total	$ 2,212,703	$ 2,314,626

[4] Certain prior year amounts have been reclassified for consistency with the current year presentation. The reclassification has no effect on the total reported amount of cost of sales.

(Presented in United States Dollars)

21. INCOME TAXES

Income tax recovery

The reconciliation of the combined Canadian federal and provincial income tax rate to the income tax recovery presented in the consolidated statements of operations and comprehensive income is provided below:

	December 31, 2019	December 31, 2018
Income for the year, before taxes	$ 29,358,198	$ 12,586,521
Statutory tax rate	27%	27%
Expected income tax	$ 7,926,714	$ 3,398,000
Permanent differences	817,000	470,000
Difference in tax rates of foreign jurisdictions	1,363,000	378,000
Benefit of recognizing previously unrecognized tax assets	(16,876,521)	(34,387,433)
Change in unrecognized deductible temporary differences	3,253,000	1,486,000
Foreign exchange on translation of deductible temporary differences	336,522	1,476,000
Other	(3,970)	709,000
Income tax recovery	$ (3,184,255)	$ (26,470,433)

Deferred income taxes

Deferred income taxes are presented on the statement of financial position as follows:

	December 31, 2019	December 31, 2018
Deferred income tax asset	$ 31,337,406	$ 27,323,258
Deferred income tax liability	(1,977,587)	(852,825)
Net deferred income tax asset	$ 29,359,819	$ 26,470,433

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

	December 31, 2019	December 31, 2018
Property, plant and equipment	$ 24,328,782	$ 26,144,979
Tax losses	5,653,410	122,091
Reclamation and closure cost obligations	735,650	567,389
Accounts payable and accrued liabilities	381,947	134,605
Lease liabilities	237,617	354,194
Inventory, mine supplies, consumables and fuel	(1,977,587)	(852,825)
Net deferred income tax asset	$ 29,359,819	$ 26,470,433

(Presented in United States Dollars)

21. INCOME TAXES (cont'd…)

Deferred income taxes (cont'd…)

The change for the year in the Company's net deferred tax asset was as follows:

	December 31, 2019	December 31, 2018
Balance, beginning of the year	$ 26,470,433	$ -
Movement during the year		
Tax losses recognized, net of tax losses utilized during the year	5,531,319	122,091
Property, plant and equipment	(1,816,196)	26,144,979
Other	(1,162,259)	203,363
Foreign exchange on translation of deductible temporary differences	336,522	-
Balance, end of the year	$ 29,359,819	$ 26,470,433

The Company has tax losses in Canada of approximately $42,360,000 (2018 – $21,780,000) expiring in various amounts from 2036 to 2039. A deferred tax asset has not been recognized in respect of these tax losses, as it is not probable that sufficient future taxable earnings will be available in the periods when deductions from such potential assets will be realized.

22. RELATED PARTY TRANSACTIONS

Key management compensation consists of the Chief Executive Officer, Chief Financial Officer, and the Board of Directors. During the below period, key management or companies they controlled compensation paid or accrued is presented in the table below:

Year ended	December 31, 2019	December 31, 2018
Share-based compensation	$ 1,285,034	$ 981,023
Management, consulting and wages	1,016,594	754,398
Professional fees	282,725	24,841

Included in accounts payable and accrued liabilities is $3,417 (2018 - $150,810) due to directors, officers, and companies controlled by directors and officers of the Company that is non-interest bearing and due on demand.

23. COMMITMENTS

Off-take agreement

The Company has a concentrate off-take agreement with a third party whereby it will purchase 100% of the concentrate produced at market prices to February 11, 2028, or until 165,000 dry metric tonnes of concentrate has been delivered, at which point the third party will be entitled to 50% of the annual production to the end of the term. Under the terms of the off-take agreement, the third party has purchased 7,170 dry metric tonnes to the year ended December 31, 2019.

24. SUBSEQUENT EVENTS

Subsequent to December 31, 2019, the Company:

a) Granted 2,234,000 stock options with an exercise price of CAD$3.85 exercisable until February 3, 2025 and 50,000 stock options with an exercise price of CAD$3.76 exercisable until March 6, 2025;

b) Received CAD$903,408 from the exercise of 1,052,000 stock options;

c) Paid $2,526,241 of principal and accrued interest to Trafigura as repayment of the Loan (Note 11); and

d) Since March 2020, several measures have been implemented in Canada, Australia, Papua New Guinea and the rest of the world in response to the increased impact from the coronavirus ("COVID-19"). While the impact of COVID-19 is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on our business operations, including the duration and impact on our future production, cannot be reasonably estimated at this time. To date there has been no significant impact on operations as a result of COVID-19, however a deterioration in the current situation could have an adverse impact on our business, results of operations, financial position and cash flows in 2020.