

PINECREST RESOURCES LTD.

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Funds)

Years Ended December 31, 2017 and 2016



April 19, 2018

Independent Auditor's Report

To the Shareholders of Pinecrest Resources Ltd.

We have audited the accompanying consolidated financial statements of Pinecrest Resources Ltd. and its subsidiaries, which comprise the consolidated balance sheets as at December 31, 2017 and December 31, 2016 and the consolidated statements of changes in shareholders' equity, loss and comprehensive loss and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

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



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pinecrest Resources Ltd. and its subsidiaries as at December 31, 2017 and December 31, 2016 and their financial performance and their cash flows for the years then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants

Pinecrest Resources Ltd.
CONSOLIDATED BALANCE SHEETS
(Expressed in Canadian Funds)
As at December 31

	Note	2017	2016
ASSETS			
Current assets			
Cash		\$ 901,456	\$ 25,899
Short-term investment	4	1,038,569	1,106,915
GST and other receivables		5,433	1,605
Prepaid expenses		25,478	24,348
		<u>1,970,936</u>	<u>1,158,768</u>
Non-current assets			
Property and equipment	5	70,797	76,049
Exploration and evaluation assets	6	12,581,924	12,812,085
		<u>\$ 14,623,657</u>	<u>\$ 14,046,901</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade and other payables		\$ 55,232	\$ 54,798
Non-current liability			
Provision for bonus payment	6	112,457	112,457
		<u>167,689</u>	<u>167,255</u>
Shareholders' equity			
Share capital		11,681,023	10,063,165
Share-based payments reserve		1,541,344	828,143
Warrants reserve		2,460,252	2,466,622
Accumulated other comprehensive income		2,482,198	3,222,259
Accumulated deficit		(3,708,850)	(2,700,543)
		<u>14,455,968</u>	<u>13,879,647</u>
		<u>\$ 14,623,657</u>	<u>\$ 14,046,901</u>

On behalf of the Audit Committee:

"Douglas Forster"

Director

"Edward Farrauto"

Director

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

Pinecrest Resources Ltd.
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian Funds)
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2017

	Common shares		Share-based payments reserve	Warrants reserves	Accum. other comprehensive income (loss)	Accum. deficit	Total
	Number	Amount					
Balance – January 1, 2016	54,916,547	\$ 10,063,165	\$ 727,395	\$ 2,197,787	\$ 3,574,868	\$ (2,173,700)	\$ 14,389,516
Share-based compensation	-	-	100,748	-	-	-	100,748
Warrant amendment (Note 7(c))	-	-	-	268,835	-	-	268,835
Foreign currency translation	-	-	-	-	(352,609)	-	(352,609)
Net loss for the year	-	-	-	-	-	(526,843)	(526,843)
Balance – December 31, 2016	54,916,547	\$ 10,063,165	\$ 828,143	\$ 2,466,622	\$ 3,222,259	\$ (2,700,543)	\$ 13,879,647

	Common shares		Share-based payments reserve	Warrants reserves	Accum. other comprehensive income (loss)	Accum. deficit	Total
	Number	Amount					
Balance – January 1, 2017	54,916,547	\$ 10,063,165	\$ 828,143	\$ 2,466,622	\$ 3,222,259	\$ (2,700,543)	\$ 13,879,647
Issued for cash (Note 7(a))	7,150,000	1,490,487	-	-	-	-	1,490,487
Issued on exercise of warrants (Note 7(c))	100,000	36,370	-	(6,370)	-	-	30,000
Issued on exercise of options (Note 7(b))	400,000	91,000	(33,000)	-	-	-	58,000
Share-based compensation	-	-	746,201	-	-	-	746,201
Foreign currency translation	-	-	-	-	(740,061)	-	(740,061)
Net loss for the year	-	-	-	-	-	(1,008,307)	(1,008,307)
Balance – December 31, 2017	62,566,547	\$ 11,681,023	\$ 1,541,344	\$ 2,460,252	\$ 2,482,198	\$ (3,708,850)	\$ 14,455,968

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

Pinecrest Resources Ltd.
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Funds)
YEAR ENDED DECEMBER 31

	2017	2016
EXPENSES		
Accounting and audit fees	\$ 31,792	\$ 32,086
Amortization	245	1,680
Consultants	45,001	-
Foreign exchange loss	46,182	6,311
Insurance	25,984	26,628
Legal	6,307	4,430
Management fees	71,494	50,400
Office	35,567	24,106
Rent	16,272	39,157
Shareholder relations, marketing, and conferences	56,634	21,284
Share-based compensation	670,354	326,443
Transfer agent and regulatory fees	14,428	14,585
	1,020,259	547,111
OTHER INCOME		
Interest income	(11,953)	(20,268)
Net loss for the year	\$ 1,008,307	\$ 526,843
OTHER COMPREHENSIVE LOSS		
Items that will be reclassified subsequently to profit or loss:		
Foreign currency translation	740,061	352,609
Comprehensive loss for the year	\$ 1,748,367	\$ 879,452
Loss per share – basic and diluted	\$ 0.02	\$ 0.01
Weighted average number of shares outstanding:		
Basic and fully diluted	60,284,492	54,916,547

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

Pinecrest Resources Ltd.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian Funds)
YEAR ENDED DECEMBER 31

	2017	2016
CASH PROVIDED BY (USED IN):		
Cash flows from operating activities:		
Net loss for the year	\$ (1,008,307)	\$ (526,843)
Non-cash item:		
Amortization	245	1,680
Share-based compensation	670,354	326,443
Unrealized foreign exchange	37,300	6,005
Changes in non-cash working capital:		
Trade and other receivables	(3,828)	2,206
Prepaid expenses	(1,130)	19,258
Trade and other payables	(9,644)	(9,851)
	<u>(315,008)</u>	<u>(181,102)</u>
Cash flows from investing activities:		
Redemption of short-term investment	68,346	348,085
Exploration and evaluation costs	(423,976)	(174,180)
	<u>(355,630)</u>	<u>173,905</u>
Cash flows from financing activities:		
Proceeds from issuance of shares, net of share issue costs	1,490,488	-
Exercise of stock options	58,000	-
Exercise of share purchase warrants	30,000	-
	<u>1,578,488</u>	<u>-</u>
Effect of exchange rate on cash	(32,293)	(3,480)
Increase (decrease) in cash	875,556	(10,678)
Cash – beginning of year	25,899	36,576
Cash – end of year	\$ 901,456	\$ 25,899
Supplemental disclosure on non-cash investing activities:		
Stock-based compensation included in exploration and evaluation assets	\$ 75,847	\$ 43,140
Exploration and evaluation costs included in trade payables	\$ 10,076	\$ 2,214

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

Pinecrest Resources Ltd.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Funds)
YEARS ENDED DECEMBER 31, 2017 AND 2016

1. NATURE OF OPERATIONS

Pinecrest Resources Ltd. and its subsidiary (collectively, “Pinecrest or the “Company”) engage principally in the acquisition, advancement and development of precious mineral properties particularly its Enchi Gold Project in Ghana. Pinecrest Resources Ltd., the parent, was incorporated by a Certificate of Incorporation issued pursuant to the provisions of the *Business Corporations Act* (British Columbia) on January 18, 2010. Pinecrest is a public company listed on the TSX Venture Exchange (the “Exchange”) (TSX-V: PCR) and its head office is located at 413 – 595 Burrard Street, P.O. Box 49167, Vancouver, British Columbia, V7X 1J1.

The Board of Directors approved the consolidated annual financial statements for issue on April 19, 2018.

2. SIGNIFICANT ACCOUNTING POLICIES

The summary of significant accounting policies followed in the preparation of these consolidated financial statements is as follows:

Statement of compliance

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

Basis of measurement

The financial statements have been prepared under the historical cost convention.

Basis of consolidation

These consolidated financial statements incorporate the financial statements of the Company and its subsidiary. The Company’s sole subsidiary is as follows:

<u>Entity Name</u>	<u>Property</u>	<u>Location</u>	<u>Ownership</u>
Cape Coast Resources Limited	Enchi Gold Project	Ghana	100%

A subsidiary is an entity over which the Company has control. The Company controls an entity when the group 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 which control is transferred to us until the date that control ceases.

All intercompany transactions and balances have been eliminated on consolidation.

Pinecrest Resources Ltd.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Funds)
YEARS ENDED DECEMBER 31, 2017 AND 2016

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Use of judgements and estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported years. Actual results could differ from those estimates. Significant areas where management judgment is applied in these financial statements include the impairment of exploration and evaluation assets and the valuation of options and warrants (which are based upon expected useful lives and other relevant assumptions). By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future years could be significant.

Cash

Cash includes cash on hand, deposits held with banks, and other short-term highly liquid investments with original maturities of three months or less.

Exploration and evaluation assets

Once a license to explore an area has been secured or an option agreement is signed and binding, expenditures on exploration and evaluation activities are capitalized to exploration and evaluation assets. Exploration expenditures relate to the initial search for deposits with economic potential and to detailed assessments of deposits or other projects that have been identified as having economic potential. Management reviews the exploration and evaluation assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the facts and circumstances suggest the carrying value exceeds the recoverable amount (where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use), the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the consolidated statement of operations. Once an economically viable reserve has been determined for an area and the decision to proceed with development has been approved, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction-in-progress within property, plant and equipment. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all irrecoverable costs associated with the project, net of any impairment provisions, are written off.

Impairment of non-current assets

Non-current assets are evaluated at least annually by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present, the recoverable amount of an asset is evaluated at the level of a cash generating unit (CGU), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. An impairment loss is recognized in profit or loss to the extent that the carrying amount exceeds the recoverable amount.

In calculating recoverable amount, the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. The determination of discounted cash flows is dependent on a number of factors, including future metal prices, the amount of reserves or resources, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and site closure, restoration and environmental rehabilitation costs. Additionally, the reviews take into account factors such as political, social and legal, and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques

Pinecrest Resources Ltd.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Funds)
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2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

often require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses.

Share-based payments

The Company grants stock options to certain directors and employees of the Company. Each tranche in an award is considered a separate award with its own vesting year and grant date fair value. Fair value of each tranche is measured at the date of grant using the Black-Scholes option pricing model. Compensation expense is recognized over the tranche's vesting by increasing share-based payments reserve based on the number of awards expected to vest. The number of awards expected to vest is reviewed at least annually, with any impact being recognized immediately.

Share capital

The Company records proceeds from share issuances net of issue costs and any tax effects. The Company records proceeds from the exercise of stock options and warrants as share capital in the amount for which the option or warrant enabled the holder to purchase a share in the Company. Share capital issued for non-monetary consideration is recorded at an amount based on fair market value. The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a pro-rata basis on a relative fair value basis, wherein, the fair value of the common shares is based on the market close on the date the units are issued; and the fair value of the common share purchase warrants is determined using the Black-Scholes pricing model.

Resource estimates

The Company estimates its mineral resources based on information compiled by Qualified Persons as defined in accordance with Canadian Securities Administrators National Instrument 43-101 *Standards for Disclosure of Mineral Projects* (NI 43-101). There are numerous uncertainties inherent in estimating ore resources, and assumptions that are valid at the time of estimation may change significantly when new information becomes available.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years. Deferred tax is recorded using the statement of financial position 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. The following temporary differences do not result in deferred tax assets or liabilities: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and 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 future tax asset will be recovered, the deferred tax asset is reduced. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Pinecrest Resources Ltd.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Funds)
YEARS ENDED DECEMBER 31, 2017 AND 2016

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Financial instruments

Financial assets

Financial assets are classified into one of four categories:

- Fair value through profit or loss (“FVTPL”);
- Loans and receivables; and
- Available for sale (“AFS”).

Financial assets at fair value through profit or loss (“FVTPL”)

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVTPL if the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company’s risk management strategy. Attributable transaction costs are recognized in the Statement of Comprehensive Income when incurred. FVTPL are measured at fair value, and changes are recognized in the Statement of Comprehensive Income.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted on an active market. Such assets are initially recognized at fair value plus any direct attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company classified its financial assets which consisted of cash and trade and other receivables as loans and receivables.

Available for sale (“AFS”)

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the Statement of Comprehensive Income.

Pinecrest Resources Ltd.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Funds)
YEARS ENDED DECEMBER 31, 2017 AND 2016

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd.)

Financial liabilities

Financial liabilities are classified into one of two categories:

- Fair value through profit or loss; and
- Other financial liabilities

Fair value through profit or loss

This category comprises of derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with the changes in fair value recognized in the Statement of Comprehensive Income.

Other financial liabilities

This category includes trade and other payables and provision for bonus payment which are recognized at amortized cost.

Currency translation

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The functional currency of Pinecrest Resources Ltd. (parent) and Cape Coast Resources Limited (subsidiary) is the Canadian dollar and US dollar respectively. The presentation currency of the consolidated financial statements is the Canadian dollar. The results and financial position of the subsidiary that has a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the period-end exchange rate;
- Income and expenses for each statement of income are translated at average exchange rates for the period; and
- All resulting exchange differences are recognized in Other Comprehensive Income as cumulative translation adjustment.

On consolidation, exchange differences arising from the translation of the net investment in the foreign entity are taken to Other Comprehensive Income as Foreign Currency Translation Reserve. When a foreign operation is sold or control is lost, such exchange differences are recognized in the Consolidated Statement of Operations as part of the gain or loss on sale.

3. NEW ACCOUNTING POLICIES

A number of new standards and amendments to standards and interpretations have not been applied in preparing these consolidated financial statements. Those standards with the potential to impact the Company are as follows:

IFRS 9, Financial Instruments ("IFRS 9"), addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortized cost, fair value through other comprehensive income ("OCI") and FVTPL. There is now a new expected credit losses

Pinecrest Resources Ltd.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Funds)
YEARS ENDED DECEMBER 31, 2017 AND 2016

3. NEW ACCOUNTING POLICIES (cont'd.)

model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in OCI, for liabilities designated at FVTPL. The standard is effective for accounting periods beginning on or after January 1, 2018. Early adoption is permitted. The Company does not expect the adoption of this standard to have a significant measurement impact on its financial statements.

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

4. SHORT-TERM INVESTMENT

Guaranteed investment certificate (“GIC”) with a principal value of \$1,038,569 (2016 - \$1,106,915) is held with a Canadian chartered bank as at December 31, 2017. The GIC is for a 1-year term, redeemable at any time without penalty, and earns an interest rate of 0.95% per annum.

5. PROPERTY AND EQUIPMENT

	Office equipment	Computer hardware	Land	Foreign exchange	Total
At January 1, 2016	\$ 6,922	\$ 638	\$ 58,733	\$ 13,961	\$ 80,254
Additions	(1,662)	(20)	-	-	(1,716)
Foreign exchange impact	-	-	-	(2,489)	(2,489)
At December 31, 2016	\$ 5,260	\$ 618	\$ 58,733	\$ 11,472	\$ 76,049
Amortization	(245)	-	-	-	(245)
Foreign exchange impact	-	-	-	(5,007)	(5,007)
At December 31, 2017	\$ 5,015	\$ 618	\$ 58,733	\$ 6,431	\$ 70,797
At December 31, 2017					
Cost	\$ 13,016	\$ 5,975	\$ 58,733	\$ 11,425	\$ 89,149
Foreign exchange impact	-	-	-	(4,994)	(4,994)
Accumulated depreciation	(8,001)	(5,357)	-	-	(13,358)
Net book value	\$ 5,015	\$ 618	\$ 58,733	\$ 6,431	\$ 70,797

Pinecrest Resources Ltd.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Funds)
YEARS ENDED DECEMBER 31, 2017 AND 2016

6. EXPLORATION AND EVALUATION ASSETS

	<u>2017</u>	<u>2016</u>
Acquisition costs		
Balance, beginning of year	\$ 8,356,926	\$ 8,356,926
Balance, end of year	\$ 8,356,926	\$ 8,356,926
Exploration and evaluation costs		
Balance, beginning of year	\$ 1,228,062	\$ 1,015,497
Assays	18,380	-
Camp costs	18,260	7,277
Concession fees, mining permits, and licenses	-	26,836
Drilling	215,128	-
Geological	81,587	34,690
General and administration	834	1,180
Management fees	53,241	21,600
Resource estimate and studies	-	1,732
Salaries and wages	9,859	69,617
Share-based compensation	75,847	43,140
Vehicle rental	28,524	6,494
Balance, end of year	\$ 1,729,722	\$ 1,228,062
Foreign exchange impact	2,495,276	3,227,097
Total exploration and evaluation assets	<u>\$ 12,581,924</u>	<u>\$ 12,812,085</u>

Enchi Gold Project, Ghana

On December 4, 2014, the Company completed the acquisition of the Enchi Gold Project (the “Project”) located in southwest Ghana from Red Back Mining Ghana Limited (“Red Back”), a wholly-owned subsidiary of Kinross Gold Corporation (“Kinross”) (TSX: K; NYSE: KGC) and Edgewater Exploration Ltd. (“Edgewater”) (TSX-V: EDW), a company with directors and officers in common. The Project was previously the subject of a joint venture between Red Back (49% interest) and Edgewater (51% interest).

Transaction Terms with Red Back Mining Ghana Limited

Pinecrest signed a definitive agreement with Red Back to acquire Red Back’s 49% interest in the Project. In consideration for Red Back’s interest in the Project, the Company:

- Issued 10,200,000 common shares to Red Back. The common shares were valued at \$0.22 per share totaling \$2,244,000 which has been classified as acquisition costs of the Project;
- Issued to Red Back an aggregate of 5,000,000 share purchase warrants, which entitles Red Back to purchase up to 5,000,000 common shares of Pinecrest at a purchase price of \$0.30 per share at any time prior to December 4, 2019. The fair value of the warrants issued was \$712,218 which has been classified as acquisition costs of the Project;
- Agreed to pay Red Back a 2% net smelter returns royalty (the “NSR”) on production from the Project, with an option for Pinecrest to acquire 1% of the NSR at any time for US\$3.5 million (“Royalty Buyback Right”). This Royalty Buyback Right was indirectly assigned to Sandstorm Gold Ltd.;

Pinecrest Resources Ltd.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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YEARS ENDED DECEMBER 31, 2017 AND 2016

6. EXPLORATION AND EVALUATION ASSETS (cont'd.)

- Agreed to pay Red Back US\$10 for each newly defined ounce of gold contained in any new NI 43-101 measured and indicated mineral resource estimate payable within 120 days from the date Red Back receives notice from Pinecrest of the completion by Pinecrest of a Feasibility Study or any ounce of gold mined, whichever occurs first ("Bonus Payment"). Such amount shall be payable in cash or at Pinecrest's option, in common shares of Pinecrest provided that such issuance would not result in Red Back holding more than 20% of the issued and outstanding shares of Pinecrest. A fair value of \$112,457 was assigned to the Bonus Payment as at the reporting date, which is classified as provision for bonus payment. This value was derived from management's estimate of future cash flows using the preliminary economic assessment report prepared by WSP Canada Inc.; and
- Agreed to pay an arm's length party a 2% royalty, up to a maximum amount of USD\$500,000, on future production from one of the Enchi Project licenses.

Transaction Terms with Edgewater Exploration Ltd.

In 2014, Pinecrest signed a definitive agreement with Edgewater to acquire Edgewater's 51% interest in the Project, through the purchase of all of the shares of Edgewater's Ghanaian subsidiary, Cape Coast Resources Limited ("CCRL"), which holds the interest in the Project. In consideration for Edgewater's interest in the Project, the Company:

- Issued 20,938,887 common shares to Edgewater. The common shares were valued at \$0.22 per share totaling \$4,606,555 which has been classified as acquisition costs of the Project; and
- Paid to Edgewater a cash payment of \$150,000. The cash payment was recorded as acquisition cost of the Project.

Government of Ghana's participation in mining lease

Where a mineral right is for mining or exploitation, the Government of Ghana is entitled to a 10% free carried interest in the rights and obligations of the mineral operations in respect of which financial contribution shall not be paid by the Government of Ghana. The Company presently holds prospecting licenses.

During 2017, the Company signed a contract with an arms-length consultant to supervise the drilling program on the Enchi Gold Project. The cost of the contract is estimated to be US\$65,000. Upon signing the contract, the Company paid the consultant US\$20,000 (equivalent to \$26,939).

On October 11, 2017, the Company signed a contract with a drilling company to complete a minimum of 3,000 meters of drilling on the Enchi Gold Project. Upon signing the contract, the Company paid a deposit of US\$20,000 (equivalent to \$24,924) to the drilling company.

Pinecrest Resources Ltd.
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7. SHARE CAPITAL

The authorized share capital of the Company is comprised of an unlimited number of common shares without par value.

(a) Private Placement

During 2017, the Company completed a non-brokered private placement for gross proceeds of \$1,501,500 by issuing 7,150,000 common shares. No finder's fees were paid in connection with the private placement. Total share issue costs associated with the financing amounted to \$11,013. Of the 7,150,000 common shares, 5,096,000 common shares were subscribed to by insiders of the Company.

(b) Stock Options

The maximum number of stock options that the Company may grant under its current Stock Option Plan is 10,000,000. As at December 31, 2017, the Company has 1,500,000 stock options available for grant. All stock options granted are subject to the following vesting schedule: 25% at grant date and 25% every six months thereafter.

During 2017, the Company granted 2,600,000 stock options at exercise prices ranging between \$0.45 and \$0.53 per share for a period of five years to directors, officers, and consultants of the Company. The fair value of the stock options granted has been estimated at the grant date using the Black-Scholes option pricing model with the following assumptions:

Range of stock prices on grant dates	\$0.45 to \$0.53
Weighted average risk-free interest rate	1.03%
Weighted average expected option life	5 years
Weighted average expected stock volatility	116.57%
Weighted average expected dividend yield	Nil

During 2017, 400,000 stock options with a weighted average exercise price of \$0.15 per share were exercised by a former director of the Company for total proceeds of \$58,000.

The total fair value of share-based compensation that vested during 2017 was \$746,201 (2016 - \$100,748) of which \$670,354 (2016 - \$57,608) was expensed and \$75,847 (2016 - \$43,140) was capitalized into exploration and evaluation assets.

A summary of the Company's stock options as at December 31, 2017 is as follows:

Exercise price	January 1, 2017	Granted	Expired	Exercised	December 31, 2017	Expiry date	Remaining contractual life in years	Number of options vested
\$0.48	127,500	-	(127,500)	-	-	October 29, 2017	-	-
\$0.22	3,050,000	-	-	(150,000)	2,900,000	December 4, 2019	1.93	2,900,000
\$0.10	2,850,000	-	-	(250,000)	2,600,000	December 21, 2020	2.98	2,600,000
\$0.45	-	2,350,000	-	-	2,350,000	April 13, 2022	4.28	1,175,000
\$0.53	-	250,000	-	-	250,000	May 24, 2022	4.40	125,000
	6,027,500	2,600,000	(127,500)	(400,000)	8,100,000			6,800,000
	\$0.17	\$0.46	\$0.48	\$0.15	\$0.26	Weighted average exercise price		

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7. SHARE CAPITAL (cont'd.)

A summary of the Company's stock options as at December 31, 2016 is as follows:

Exercise price	January 1, 2016	Expired	December 31, 2016	Expiry date	Remaining contractual life in years	Number of options vested
\$0.60	95,000	(95,000)	-	July 12, 2016	-	-
\$0.76	150,000	(150,000)	-	September 8, 2016	-	-
\$0.48	127,500	-	127,500	October 29, 2017	0.83	127,500
\$0.22	3,050,000	-	3,050,000	December 4, 2019	2.93	3,050,000
\$0.10	2,850,000	-	2,850,000	December 21, 2020	3.98	2,137,500
	6,272,500	(245,000)	6,027,500			5,315,000
	\$0.19	\$0.70	\$0.17	Weighted average exercise price		

(c) Warrants

During 2016, the Company amended the expiry date of 18 million share purchase warrants from December 4, 2016 to December 4, 2019. These warrants were issued as part of a private placement transaction and are exercisable at \$0.30 per share. All of the other terms of the warrants remain unchanged. The amendment resulted to the Company recording an additional stock-based compensation expense of \$268,835 in 2016.

During 2017, a total of 100,000 share purchase warrants with an exercise price of \$0.30 per share were exercised into common shares of the Company for gross proceeds of \$30,000.

A summary of the Company's share purchase warrants as at December 31, 2017 is as follows:

Exercise price	January 1, 2017	Exercised	December 31, 2017	Expiry date	Remaining contractual life in years
\$0.30	5,000,000	-	5,000,000	December 4, 2019	1.93
\$0.30	18,000,000	(100,000)	17,900,000	December 4, 2019	1.93
	23,000,000	(100,000)	22,900,000		
	\$0.30	\$0.30	\$0.30	Weighted average exercise price	

A summary of the Company's share purchase warrants as at December 31, 2016 is as follows:

Exercise price	January 1, 2016	Expired	December 31, 2016	Expiry date	Remaining contractual life in years
\$0.30	5,000,000	-	5,000,000	December 4, 2019	2.93
\$0.30	18,000,000	-	18,000,000	December 4, 2019	2.93
\$0.20	378,570	(378,570)	-	December 4, 2016	-
	23,378,570	(378,570)	23,000,000		
	\$0.30	\$0.20	\$0.30	Weighted average exercise price	

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8. RELATED PARTY TRANSACTIONS

(a) Trading transactions

The Company shares office space and administration costs with related parties in order to minimize operational costs. During 2017, the Company paid or accrued \$16,272 (2016 - \$39,157) for office rent to related companies.

The Company had a payable balance of \$10,835 as at December 31, 2017 (2016 - \$214). These payable amounts relate to expense reimbursements. All related party transactions were recorded at the amount agreed upon by the related parties. There are no ongoing contractual or other commitments resulting from the above transactions.

(b) Compensation of key management personnel

Key management personnel include directors and officers that provide management and consulting services to the Company. Remuneration of key management personnel during the year was as follows:

Related Party	Relationship	2017		2016
Gladstone Capital Ltd.	President	\$	52,734	\$ -
Pacific Court Capital Corp.	Chief Financial Officer	\$	36,000	\$ 36,000
Sail View Capital Ltd.	Director	\$	36,000	\$ 36,000

Management consulting agreements are on a month-to-month basis and can be terminated by either party with sixty days' notice. Share-based payments to key management personnel of the Company amounted to \$646,677 (2016 - \$142,338).

Key management remuneration is reflected in the financial statements as follows:

	2017		2016
Management fees	\$	124,734	\$ 72,000
Geological	\$	-	\$ -
Share-based compensation	\$	646,677	\$ 142,338
Consulting		-	\$ -
Total	\$	771,411	\$ 214,338
Expensed in:			
General and administrative	\$	573,277	\$ 143,694
Capitalized in:			
Exploration and evaluation assets	\$	198,134	\$ 70,644
Total	\$	771,411	\$ 214,338

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9. CAPITAL MANAGEMENT

The Company's objectives in managing its capital resources are to safeguard the entity's ability to continue as a going concern and maximize returns to shareholders in the context of the market. The Company satisfies its capital requirements through careful management of its cash resources and by utilizing equity issues, as necessary, based on the prevailing economic conditions of both the industry and the capital markets and the underlying risk characteristics of the related assets. The Company's principal source of capital is from the issuance of common shares. To meet the objectives, management monitors the Company's ongoing capital requirements against net working capital and assesses additional capital requirements on a case-by-case basis. The Company is not subject to any externally imposed capital requirements. The capital structure of the Company consists of equity attributable to common shareholders comprising of issued capital, warrants reserve, share-based payments reserve, accumulated other comprehensive income, and accumulated deficit.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

(a) Financial Instruments by Category

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GST and other receivables and trade and other payables are the same as or approximately equal to their respective fair values due to their short-term maturity or capacity of prompt liquidation. The carrying values of financial assets and financial liabilities are approximately equal to their fair values.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company ensures there is sufficient capital to meet short-term business requirements. One of management's goals is to maintain an optimal level of liquidity through the active management of the Company's assets, liabilities, and cash flows. The Company's cash are held as cash deposits which are available on demand to fund the Company's short-term financial obligations.

(c) Credit Risk and Concentration Risk

The Company's credit risk is primarily attributable to its cash, short-term investments, and GST and other receivables. The risk exposure is limited to their carrying values at the balance sheet date. Cash and short-term investments are held with counterparties that carry investment grade ratings as assessed by external rating agencies. The Company does not invest in asset-backed deposits or investments. Concentration risk exists in cash and short-term investments because significant balances are maintained with one financial institution. The risk is mitigated because the instruments are maintained with a large Canadian financial institution.

(d) Market Risks

The significant market risk to which the Company is exposed is interest rate risk. The Company's interest rate risk arises primarily from the interest earned on cash and short-term investments. Deposits are invested on a short-term basis to enable adequate liquidity for payment of operational and capital expenditures. The Company's short-term investments reflect funds invested in GIC's (*Note 3*). Other financial assets and liabilities of the Company are not subject to interest rate risk since they do not bear interest.

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11. SEGMENTED INFORMATION

The Company's business is the acquisition, exploration, evaluation, and development of mineral resource properties, which is currently conducted principally in Ghana. The Company is in the exploration stage and accordingly, has no reportable segment revenues for any of the years presented in these consolidated financial statements.

	2017	2016
Assets by geographic segment, at cost		
<i>Canada</i>		
Total assets	\$ 1,909,569	\$ 1,133,601
Total liabilities	\$ 165,052	\$ 165,040
Net loss for the year	\$ 999,937	\$ 515,780
<i>Ghana</i>		
Total assets	\$ 12,714,088	\$ 12,913,301
Total liabilities	\$ 2,638	\$ 2,214
Net loss for the year	\$ 8,369	\$ 11,064

12. INCOME TAXES

The reconciliation of the income tax provision computed at statutory rates to the reported income tax provision for the years ended December 31 is as follows:

	2017	2016
Loss for the year before income taxes	\$ (1,008,307)	\$ (526,843)
Effective statutory rate	26%	26%
Expected income tax recovery	\$ (262,160)	\$ (136,979)
Non-deductible expenses	175,045	85,026
Share issue costs	(8,640)	(8,067)
Effect of foreign exchange	434,598	211,618
Other items	(62,525)	(33,685)
Change in unrecognized tax benefit	(276,319)	(117,913)
	\$ -	\$ -

Deferred income tax assets and liabilities reflect the net effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The significant components of the Company's deferred income tax assets and liabilities as at December 31 are as follows:

	2017	2016
Deferred income tax assets not recognized:		
Non-capital loss carry forwards	\$ 2,636,029	\$ 2,906,572
Undeducted share issue costs	10,358	16,134
	\$ 2,646,387	\$ 2,922,706

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13. INCOME TAXES (cont'd.)

The Company has non-capital losses in Canada of \$1,996,279 (2016 - \$1,640,680), which can be used to reduce taxable income in future years. These non-capital loss carry-forwards are subject to expire on 2037. As at December 31, 2017, the Company's Ghanaian subsidiary has carry-forward exploration costs of GHS 21,875,452 (equivalent to \$6 million) that can be used to reduce taxable income in future years. These exploration costs are amortized over a three-year period from the time the Company commences commercial production.