



CONDENSED INTERIM FINANCIAL STATEMENTS

For the quarter ended

February 28, 2015

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The management of Kapuskasing Cold Corp. is responsible for the preparation of the accompanying unaudited condensed interim financial statements. The unaudited condensed interim financial statement have been prepared in accordance with International Financial Reporting Standards and are considered by management to present fairly the consolidated financial position, operating results and cash flows of the Company.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor. These unaudited condensed interim financial statements include all adjustments, consisting of normal and recurring items, that management considers necessary for a fair presentation of the consolidated financial position, results of operations and cash flows.

"Dean Nawata"

Dean Nawata
Chief Executive Officer

"Andrew Davidson"

Andrew Davidson
Chief Financial Officer

KAPUSKASING GOLD CORP.
STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

| | February 28, 2015 | May 31, 2014 |
|---|----------------------|--------------------|
| ASSETS | | |
| CURRENT | | |
| Cash | \$ 61,365 | \$ 35,821 |
| Prepaid expenses | 27,340 | 3,750 |
| Sales taxes receivable | 9,456 | 29,009 |
| | <u>98,161</u> | <u>68,580</u> |
| NON-CURRENT | | |
| EXPLORATION AND EVALUATION ASSETS (Note 5) | 392,317 | 372,858 |
| | <u>\$ 490,478</u> | <u>\$ 441,438</u> |
| LIABILITIES | | |
| CURRENT | | |
| Accounts payable and accrued liabilities (Note 6) | \$ 383,003 | \$ 251,590 |
| Other liability (Note 7) | 2,864 | - |
| | <u>385,867</u> | <u>251,590</u> |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 8) | 2,732,403 | 2,451,788 |
| Share subscriptions receivable (Note 8) | - | (95,090) |
| Shares committed for issuance (Note 8) | - | 208,000 |
| Contributed surplus | 897,503 | 763,831 |
| Deficit | <u>(3,525,295)</u> | <u>(3,138,681)</u> |
| | <u>104,611</u> | <u>189,848</u> |
| | <u>\$ 490,478</u> | <u>\$ 441,438</u> |

NATURE OF BUSINESS AND GOING CONCERN (Note 1)
 COMMITMENTS (Note 11)

Approved and authorized for issue on behalf of the Board on April 22, 2015:

“Signed”
 Dean Nawata

“Signed”
 Andrew Davidson

The accompanying notes form an integral part of these financial statements

KAPUSKASING GOLD CORP.
STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

| | 3 months ended Feb. 28, 2015 (Unaudited) | 3 months ended Feb. 28, 2014 (Unaudited) | 9 months ended Feb. 28, 2015 (Unaudited) | 9 months ended Feb. 28, 2014 (Unaudited) |
|--|--|--|--|--|
| GENERAL AND ADMINISTRATION: | | | | |
| Bank charges | \$ 49 | \$ 172 | \$ 295 | \$ 216 |
| Consulting (Note 6) | 49,800 | 53,425 | 126,675 | 113,950 |
| Investor relations | 37,123 | 267 | 132,779 | 3,699 |
| Office and miscellaneous | 1,611 | 2,228 | 2,871 | 2,833 |
| Professional fees (Note 6) | 16,579 | 2,871 | 50,461 | 32,871 |
| Rent | 250 | 1,250 | 875 | 1,250 |
| Stock based compensation | 63,000 | - | 63,000 | - |
| Transfer agent and filing fees | 4,932 | 19,464 | 10,594 | 21,577 |
| Impairment of exploration and evaluation assets (Note 5) | - | 751,020 | - | 751,020 |
| | 173,344 | 830,757 | 387,550 | 927,416 |
| Loss from operating expenses | 173,344 | 830,757 | 387,550 | 927,416 |
| Other income on settlement of flow-through premium liability (Note 7) | (936) | - | (936) | - |
| NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD | \$ 172,408 | \$ 830,757 | \$ 386,614 | \$ 927,416 |
| LOSS PER SHARE, basic and diluted | \$ (0.01) | \$ (0.05) | \$ (0.02) | \$ (0.04) |
| WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING | 22,749,175 | 17,377,424 | 21,298,670 | 23,431,711 |

The accompanying notes form an integral part of these financial statements

KAPUSKASING GOLD CORP.
STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

| | 3 months ended Feb. 28, 2015 (Unaudited) | 3 months ended Feb. 28, 2014 (Unaudited) | 9 months ended Feb. 28, 2015 (Unaudited) | 9 months ended Feb. 28, 2014 (Unaudited) |
|--|--|--|--|--|
| OPERATING ACTIVITIES | | | | |
| Net loss | \$ (172,408) | \$ (830,757) | \$ (386,614) | \$ (927,416) |
| Changes in non-cash working capital items: | | | | |
| Prepaid expenses | 18,410 | - | (31,090) | - |
| Sales taxes receivable | (104) | (15,480) | 26,963 | (13,078) |
| Accounts payable and accrued liabilities | 13,395 | 12,412 | 131,413 | 107,119 |
| Impairment of exploration and evaluation assets (Note 5) | - | 751,020 | - | 751,020 |
| Stock based compensation | 63,000 | - | 63,000 | - |
| Other income on settlement of flow-through premium liability (Note7) | (936) | | (936) | |
| | (78,643) | (82,805) | (197,264) | (82,355) |
| FINANCING ACTIVITIES | | | | |
| Share issuance | 34,971 | 200,000 | 154,590 | 200,000 |
| Share issuance costs | (5,838) | - | (7,413) | - |
| Share subscription receivables | 22,202 | - | 95,090 | - |
| | 51,335 | 200,000 | 242,267 | 200,000 |
| INVESTING ACTIVITIES | | | | |
| Exploration and evaluation assets | (12,703) | (97,970) | (19,459) | (97,970) |
| | (12,703) | (97,970) | (19,459) | (97,970) |
| CHANGE IN CASH | (40,011) | 19,225 | 25,544 | 19,675 |
| CASH, BEGINNING OF PERIOD | 101,376 | 10,191 | 35,821 | 9,741 |
| CASH, END OF PERIOD | \$ 61,365 | \$ 29,416 | \$ 61,365 | \$ 29,416 |
| SUPPLEMENTAL INFORMATION | | | | |
| Interest paid | \$ - | \$ - | \$ - | \$ - |
| Income taxes paid | - | - | - | - |
| Warrants issued for share issue costs | 672 | - | 672 | - |
| Shares issued for exploration and evaluation assets | 208,000 | 27,500 | 208,000 | 55,000 |

The accompanying notes form an integral part of these financial statements

KAPUSKASING GOLD CORP.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Expressed in Canadian dollars)

| | Number of Shares | Share Capital | Share Subscriptions Receivable | Shares Committed For Issuance | Contributed Surplus | Deficit | Total Shareholders' Equity |
|--|---------------------|------------------|--------------------------------------|-------------------------------------|------------------------|-------------|----------------------------------|
| | | \$ | \$ | \$ | \$ | \$ | \$ |
| Balance, May 31, 2013 | 13,056,922 | 2,142,214 | - | - | 608,205 | (2,085,941) | 664,478 |
| Issued for exploration and evaluation assets | 500,000 | 55,000 | - | - | - | - | 55,000 |
| Issued for cash pursuant to private placements | 4,000,000 | 31,200 | - | - | 168,800 | - | 200,000 |
| Net loss and comprehensive loss for the period | - | - | - | - | - | (927,416) | (927,416) |
| Balance, February 28, 2014 | 17,556,922 | 2,228,414 | - | - | 777,005 | (3,013,357) | (7,938) |
| Balance, May 31, 2014 | 19,005,722 | 2,451,788 | (95,090) | 208,000 | 763,831 | (3,138,681) | 189,848 |
| Issued for exploration and evaluation assets | 1,600,000 | 208,000 | - | (208,000) | - | - | - |
| Issued for cash pursuant to private placements | 2,233,930 | 80,790 | - | - | - | - | 80,790 |
| Warrants issued | | | | | 70,672 | | 70,672 |
| Share issue costs | | (8,175) | | | | | (8,175) |
| Share subscriptions received | | | 95,090 | - | - | - | 95,090 |
| Share based compensation | | | | | 63,000 | | 63,000 |
| Net loss and comprehensive loss for the period | - | - | - | - | - | (386,614) | (386,614) |
| Balance, February 28, 2015 | 22,336,372 | 2,732,403 | - | - | 897,503 | (3,525,295) | 104,611 |

The accompanying notes form an integral part of these financial statements

KAPUSKASING GOLD CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE QUARTER ENDED FEBRUARY 28, 2015
(Expressed in Canadian dollars)

1. NATURE OF BUSINESS AND GOING CONCERN

Kapuskasing Gold Corp. (the "Company") (formerly Olympic Resources Ltd.) was incorporated under the Business Corporations Act in British Columbia on April 26, 2010. The head office, principal address and records office of the Company are located at 885 Dunsmuir Street, Suite 350, Vancouver, British Columbia, V6C 1N5. The Company's registered address is 700 West Georgia Street, 25th Floor, Vancouver, British Columbia, V7Y 1B3.

On December 19, 2013, all of the issued common shares and equity instruments of the Company were consolidated on the basis of 2 pre-consolidation common shares/equity instruments for 1 post-consolidation common share/equity instrument. As a result of the consolidation, all share and per-share information in the financial statements have been restated to reflect the consolidation.

GOING CONCERN

The Company's principal business activities include the acquisition and exploration of mineral property assets. At February 28, 2015, the Company had not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for an exploration and evaluation asset is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain the necessary financing to complete the development of and future profitable production from the properties or realizing proceeds from their disposition.

The Company has an accumulated deficit of \$3,525,295 as at February 28, 2015. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs.

As at February 28, 2015, the Company's current cash resources are insufficient to cover the expected expenditures in fiscal 2015. The Company's ability to continue as a going concern is dependent on being able to obtain the necessary financing to satisfy its liabilities as they become due. There can be no assurances that management will be successful in securing adequate financing.

The Company reported net losses in the first nine months of fiscal 2015 and 2014 fiscal year ended of \$386,614 and \$1,052,740 respectively. These recurring losses and the need for continued financing to further successful exploration may cast significant doubt as to the Company's ability to continue as a going concern.

These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

These financial statements were approved for issuance by the Board of Directors on April 22, 2015.

2. STATEMENT OF COMPLIANCE

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). Accordingly, certain information and disclosure normally included in annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the IASB, has been omitted or condensed.

The same accounting policies and methods of computation were followed in the preparation of these condensed interim financial statements as were followed in the preparation and described in note 4 of the annual audited financial statements as at and for the year ended May 31, 2014. Accordingly, these condensed interim financial statements for the three and nine month periods ended and as at February 28, 2015 and 2014 should be read together with the annual financial statements as at and for the year ended May 31, 2014.

KAPUSKASING GOLD CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE QUARTER ENDED FEBRUARY 28, 2015
(Expressed in Canadian dollars)

3. BASIS OF MEASUREMENT

These interim condensed financial statements have been prepared on a historical cost basis, and are prepared and presented in Canadian dollars, which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. The areas involving a higher degree of judgement, complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 2.

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company has adopted the following new and revised standards, along with any consequential amendments, effective June 1, 2014. These changes were made in accordance with the applicable transitional provisions and did not have a material impact on the Company's financial statements:

IFRS 10 Consolidated Financial Statements ("IFRS 10") replaces the guidance on control and consolidation in IAS 27 Consolidated and Separate Financial Statements, and SIC-12, Consolidation - Special Purpose Entities. IFRS 10 requires consolidation of an investee only if the investor possesses power over the investee, has exposure to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect its returns.

IFRS 11 Joint Arrangements ("IFRS 11") supersedes IAS 31 Interests in Joint Ventures and requires joint arrangements to be classified either as joint operations or joint ventures depending on the contractual rights and obligations of each investor that jointly controls the arrangement. For joint operations, a Company recognizes its share of assets, liabilities, revenues and expenses of the joint operation. An investment in a joint venture is accounted for using the equity method as set out in IAS 28 Investments in Associates and Joint Ventures (amended in 2011) ("IAS 28").

IFRS 12 Disclosure of Interests in Other Entities ("IFRS 12") contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structure entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate that nature, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows.

IFRS 13 Fair Value Measurement ("IFRS 13") provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including assumptions about risk. The Company adopted IFRS 13 on June 1, 2013 on a prospective basis.

The Company has adopted the amendments to IAS 1 Presentation of Financial Statements ("IAS 1"). These amendments required the Company to group other comprehensive income items by those that will be reclassified subsequently to profit or loss and those that will not be reclassified.

KAPUSKASING GOLD CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE QUARTER ENDED FEBRUARY 28, 2015
(Expressed in Canadian dollars)

4. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS
(continued)

New standards not yet adopted

The Company is currently assessing whether or not the adoption of the following standards will have a material effect on the Company's future financial statements:

IFRS 9, "Financial Instruments"

In November 2009, the IASB published IFRS 9, "Financial Instruments", which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to their own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective on January 1, 2018. Early adoption is permitted and the standard is required to be applied retrospectively.

IAS 32, "Financial Instruments: Presentation"

The IASB amended IAS 32, "Financial Instruments: Presentation" to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off';
- the application of simultaneous realization and settlement;
- the offsetting of collateral amounts; and
- the unit of account for applying the offsetting requirements.

The amended standard is effective for annual periods beginning on or after January 1, 2014.

5. EXPLORATION AND EVALUATION ASSETS

| | Acquisition | Exploration | Impairment | Feb. 28, 2015 | May 31, 2014 |
|--------------|-------------------|------------------|-------------|-------------------|-------------------|
| Borden North | \$ 111,660 | \$ 20,821 | \$ - | \$ 132,481 | \$ 116,940 |
| Borden South | 27,550 | - | - | 27,550 | 27,550 |
| Golden Route | 7,920 | - | - | 7,920 | 7,920 |
| Chapleau | 41,980 | - | - | 41,980 | 41,980 |
| Rollo | 150,100 | 3,918 | - | 154,018 | 150,100 |
| Schewabik | 28,368 | - | - | 28,368 | 28,368 |
| Total | \$ 367,578 | \$ 24,739 | \$ - | \$ 392,317 | \$ 372,858 |

KAPUSKASING GOLD CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE QUARTER ENDED FEBRUARY 28, 2015
(Expressed in Canadian dollars)

5. EXPLORATION AND EVALUATION ASSETS (*continued*)

BORDEN NORTH PROPERTY, ONTARIO

On February 27, 2014 the Company entered into a purchase agreement to acquire a 100% interest in the Borden North Gold Property ("Borden North"). The Vendors retain a 2% Net Smelter Royalty, of which 1% may be repurchased for \$1,000,000. Under the terms of the agreement, the Company is committed to issue 600,000 shares to the Vendors and have agreed to issue an additional \$600,000 worth of bonus shares, contingent on the Company's release of a 43-101 compliant measured and indicated resource of 2,000,000 ounces or more of gold within the claims of Borden North. In addition, the Company paid \$33,660 in cash as a repayment of staking costs associated with Borden North. Subsequent to year end, the Company received regulatory approval for the agreement and issued the 600,000 shares to the Vendors (Note 14).

BORDEN SOUTH PROPERTY, ONTARIO

During the year, the Company acquired, by staking, the Borden South Gold Property in Ontario. The total cost associated with the acquisition was \$27,550.

GOLDEN ROUTE PROPERTY, ONTARIO

During the year, the Company acquired, by staking, the Golden Route Property in Ontario. The total cost associated with the acquisition was \$7,920.

CHAPLEAU PROPERTY, ONTARIO

During the year, the Company acquired, by staking, the Chapleau Gold Property in Ontario. The total cost associated with the acquisition was \$41,980.

ROLLO PROPERTY, ONTARIO

On February 25, 2014 the Company entered into a purchase agreement to acquire a 100% interest in the Rollo Gold Property in Ontario ("Rollo"). The Vendors retain a 2% Net Smelter Royalty, of which 1% may be repurchased for \$1,665,000. Under the terms of the agreement, the Company is committed to issue 1,000,000 shares to the Vendors and have agreed to issue an additional \$1,000,000 worth of bonus shares, contingent on the Company's release of a 43-101 compliant measured and indicated resource of 2,000,000 ounces or more of gold within the claims of Rollo. In addition, the Company paid \$20,100 in cash as a repayment of staking costs associated with Rollo. Subsequent to year end, the Company received regulatory approval for the agreement and issued the 1,000,000 shares to the Vendors (Note 14).

SCHEWABIK PROPERTY, ONTARIO

During the year, the Company acquired, by staking, the Schewabik Gold Property in Ontario. The total cost associated with the acquisition was \$28,368.

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6. RELATED PARTY TRANSACTIONS AND BALANCES

During the nine months ended February 28, 2015, the Company entered into transactions with related parties comprised of directors, officers and companies with common directors as follows:

| Related party | Nature of transactions |
|------------------------------|-------------------------------|
| Andrew Davidson, CFO | Consulting fees |
| Dean Nawata, President & CEO | Consulting fees |

Included for the nine months ended February 28, 2015 and February 28, 2014 at their exchange amounts are the following items paid or accrued to key management personnel and/or companies with common directors. The Company has identified its directors and certain senior officers as its key management personnel. Exchange amounts are the amounts agreed upon by the transacting parties.

Included in accounts payable and accrued liabilities is \$271,281 (2014 - \$124,450) payable to directors and officers.

| Nine months ended February 28, | 2015 | 2014 |
|---------------------------------------|-------------------|-------------------|
| Professional Fees | \$ - | \$ 30,000 |
| Consulting | 112,500 | 82,500 |
| Investor Relations | - | 2,113 |
| Share based compensation | 35,000 | - |
| Totals | \$ 147,500 | \$ 114,613 |

7. OTHER LIABILITY

During the period ending November 30, 2014, the Company closed a financing and recorded a premium received on flow-through shares of \$2,800, which was recorded as a liability to be reversed to profit and loss when the eligible expenditures are incurred. As at February 28, 2015, the remaining liability is estimated at \$1,864.

8. SHARE CAPITAL

a) Share capital

Authorized

Unlimited common shares without par value.

Issued and outstanding

As at February 28, 2015, the issued share capital comprised of 22,839,652 common shares (2014— 17,556,922):

Fiscal 2014

- i. The Company issued 250,000 shares at a value of \$0.11 per share as partial payment under the McWhirter Lake agreement (see also Note 5).
- ii. The Company issued 250,000 shares at a value of \$0.11 per share as partial payment under the McWhirter Lake agreement (see also Note 5).
- iii. The Company completed a private placement issuing 4,000,000 units at \$0.05 per unit raising gross proceeds of \$200,000. Each unit consisted of one share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase a further share in the Company at a price of \$0.10 per share for 5 years after closing.

KAPUSKASING GOLD CORP.
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(Expressed in Canadian dollars)

8. SHARE CAPITAL (*continued*)

- iv. The Company completed a private placement issuing 1,448,800 units at \$0.15 per unit raising gross proceeds of \$217,320. Of the gross proceeds raised, \$95,090 were still receivable as at May 31, 2014. Each unit consisted of one share and one half share purchase warrant. Each whole share purchase warrant entitles the holder to purchase a further share in the Company at a price of \$0.20 per share for 2 years after closing. Also as part of the financing, the Company issued 45,500 finders warrants exercisable at a price of \$0.15 per warrant for 2 years after closing.

Fiscal 2015

- v. The Company issued 1,000,000 shares at a value of \$0.05 per share as partial payment for the Borden North property (see also Note 5)
- vi. The Company issued 600,000 shares at a value of \$0.05 per share as partial payment for the Rollo property (see also Note 5)
- vii. The Company completed a private placement issuing 506,560 flow-through units at \$0.075 per unit raising gross proceeds of \$37,992 and issuing 1,727,370 non-flow-through units at \$0.0675 per unit raising gross proceeds of \$116,598. Each unit consisted of one common share and one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase a further share in the Company at a price of \$0.10 per share for 2 years after closing. Also as part of the financing, the Company issued 14,777 finders warrants exercisable at a price of \$0.10 per warrant for 2 years after closing.

b) Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, and technical consultants to the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company. Such options will be exercisable for a period of up to 5 years from the date of grant, and must comply with the rules of the TSX Venture Exchange.

On September 9, 2011, the Company granted 1,000,000 incentive stock options under this plan. The options have an exercise price of \$0.44 and expire on September 9, 2016. The Company expensed these options as share-based compensation with a charge of \$332,351, which was calculated using the Black-Scholes model to price the value of stock options.

The following assumptions were used:

| | |
|-------------------------|---------|
| Life of option | 5 years |
| Volatility | 102.26% |
| Risk free interest rate | 1.32% |
| Dividend policy | 0.00 |

On May 3, 2012, those options noted above were cancelled and another 1,000,000 options exercisable at \$0.28 and expiring on May 3, 2017 were granted. Share-based compensation of \$212,941 was recorded using the Black-Scholes Method with the following assumptions:

| | |
|-------------------------|---------|
| Life of option | 5 years |
| Volatility | 102.99% |
| Risk free interest rate | 1.64% |
| Dividend policy | 0.00 |

KAPUSKASING GOLD CORP.
NOTES TO THE FINANCIAL STATEMENTS
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(Expressed in Canadian dollars)

8. SHARE CAPITAL *(continued)*

On January 15, 2015, 1,125,000 options exercisable at \$0.10 and expiring on January 15, 2020 were granted. Share-based compensation of \$63,000 was recorded using the Black-Scholes Method with the following assumptions:

| | |
|-------------------------|---------|
| Life of option | 5 years |
| Volatility | 172.83% |
| Risk free interest rate | 1.02% |
| Dividend policy | 0.00 |

(i) The following stock options were outstanding and exercisable as at February 28, 2015:

| Number of Options | Exercise Price | Expiry Date |
|-------------------|----------------|------------------|
| 850,000 | \$ 0.28 | May 3, 2017 |
| 1,125,000 | \$ 0.10 | January 15, 2020 |

(ii) A summary of the Company's issued and outstanding stock options and changes during those years are presented below:

| | Number of Options | Weighted Average Exercise Price | Weighted Average Life Remaining (in years) |
|--|-------------------|---------------------------------|--|
| Balance, May 31, 2013 and May 31, 2014 | 1,000,000 | \$0.28 | 2.93 |
| Expired | (150,000) | \$0.28 | |
| Issued | 1,125,000 | \$0.10 | |
| Balance, February 28, 2015 | 1,975,000 | \$0.18 | 3.72 |

c) Warrants and finders' warrants

(i) The following warrants were outstanding and exercisable as at February 28, 2015:

| Number of Warrants | Exercise Price | Expiry Date |
|--------------------|----------------|-------------------|
| 4,000,000 | \$0.10 | February, 5, 2019 |
| 511,057 | \$0.10 | December 17, 2017 |
| 1,737,650 | \$0.10 | November 24, 2017 |
| 45,500 | \$0.15 | May 27, 2016 |
| 724,400 | \$0.20 | May 27, 2016 |

KAPUSKASING GOLD CORP.
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(Expressed in Canadian dollars)

8. SHARE CAPITAL *(continued)*

c) Warrants and finders' warrants *(continued)*

(ii) A summary of the Company's share purchase warrants are as follows:

| | Number of Warrants | Weighted Average Exercise Price |
|---|--------------------|---------------------------------|
| Outstanding and exercisable, May 31, 2013 | 500,000 | \$0.30 |
| Issued | 4,769,900 | \$0.12 |
| Outstanding and exercisable, May 31, 2014 | 5,269,900 | \$0.13 |
| Expired | (500,000) | \$0.30 |
| Issued | 2,248,707 | \$0.03 |
| Outstanding and exercisable, February 28, 2015 | 7,018,607 | \$0.11 |

In February 2014, the Company issued 4,000,000 share purchase warrants in connection to the private placement units described in Note 8 (a)(iii) above. The warrants are exercisable at \$0.10 per share and expire on February 5, 2019. A fair value of \$91,500 was allocated to the warrants issued using the Black-Scholes model with the following assumptions:

| | |
|-------------------------|---------|
| Expected term | 5 years |
| Volatility | 140.6% |
| Expected dividend yield | nil |
| Risk-free interest rate | 1.58% |

In May 2014, the Company issued 724,400 share purchase warrants in connection to the private placement units described in Note 8 (a)(viii) above. The warrants are exercisable at \$0.20 per share and expire on May 27, 2016. A fair value of \$68,200 was allocated to the warrants issued using the Black-Scholes model with the following assumptions:

| | |
|-------------------------|---------|
| Expected term | 2 years |
| Volatility | 157.2% |
| Expected dividend yield | nil |
| Risk-free interest rate | 1.04% |

In November 2014, the Company issued 1,737,600 share purchase warrants in connection to the private placement units described in Note 8 (a)(viii) above. The warrants are exercisable at \$0.10 per share and expire on November 24, 2016. A fair value of \$55,338 was allocated to the warrants issued using the Black-Scholes model with the following assumptions:

| | |
|-------------------------|---------|
| Expected term | 2 years |
| Volatility | 238.2% |
| Expected dividend yield | nil |
| Risk-free interest rate | 1.03% |

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8. SHARE CAPITAL *(continued)*

c) Warrants and finders' warrants *(continued)*

In December 2014, the Company issued 511,057 share purchase warrants in connection to the private placement units described in Note 8 (a)(viii) above. The warrants are exercisable at \$0.10 per share and expire on December 17, 2016. A fair value of \$15,334 was allocated to the warrants issued using the Black-Scholes model with the following assumptions:

| | |
|-------------------------|---------|
| Expected term | 2 years |
| Volatility | 230.3% |
| Expected dividend yield | nil |
| Risk-free interest rate | 0.99 |

e) Shares held in escrow

As at February 28, 2015, nil (2014- 300,000) shares were held in escrow. Their release is subject to determination by regulatory authorities.

9. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share for the periods ended February 28, 2015 and February 28, 2014 was based on the loss attributable to common shareholders of \$386,614 (February 28, 2014 – \$927,416) and the weighted average number of common shares outstanding of 21,298,670 (February 28, 2014 – 17,556,922).

10. INCOME TAXES

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the statement of financial position are as follows:

| | 2015 | Expiry Date Range | 2014 | Expiry Date Range |
|--|--------------|----------------------|---------|----------------------|
| Temporary Differences | | | | |
| Exploration and evaluation assets | \$ 1,420,799 | No expiry date | \$ - | No expiry date |
| Share issue costs | 8,699 | 2034 to 2037 | - | 2033 to 2036 |
| Non-capital losses available for future period | 1,575,836 | 2031 to 2034 | 931,108 | 2031 to 2033 |

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

11. COMMITMENTS

The Company is obligated to make certain payments and issue shares as described in Note 6 in connection with the acquisition of its mineral property.

12. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the sourcing and exploration of mineral properties. The Company does not have any externally imposed capital requirements to which it is subject.

As at February 28, 2015, the Company considers capital to be all components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company did not change its approach to management of capital from the approach used for the year ended May 31, 2014.

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13. FINANCIAL INSTRUMENTS

The Company is exposed to varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit Risk

Credit risk is the risk of potential loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its liquid financial assets including cash. The Company limits the exposure to credit risk by only investing its cash with high-credit quality financial institutions.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as described in Note 12.

The Company monitors its ability to meet its short-term exploration and administrative expenditures by raising additional funds through share issuance when required. All of the Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed deposits.

In the normal course of business, the Company enters into contracts that give rise to commitments for future minimum payments. The following table summarizes the Company's significant commitments and corresponding maturities:

| | | <1 year | 1 – 3 Years | Total |
|--|----|-------------------|------------------------|--------------|
| Accounts payable and accrued liabilities | \$ | 383,003 | - | \$ 383,003 |
| | \$ | 383,003 | - | \$ 383,003 |

Foreign Exchange Risk

The Company currently does not have significant foreign exchange risk as all of its transactions are in Canadian dollars.

Interest Rate Risk

The Company is not exposed to significant interest rate risk.

Commodity Price Risk

The Company's ability to raise capital to fund exploration activities is subject to risks associated with fluctuations in the market price of mineral resources. The Company closely monitors commodity prices to determine the appropriate course of action to be taken.

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13. FINANCIAL INSTRUMENTS *(continued)*

Fair Value Measurements

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The fair value of cash is determined based on “Level 1” inputs which consist of quoted prices in active markets for identical assets. As at November 30, 2014, the Company believes that the carrying values of accounts payable approximates its fair value because of their nature and relatively short maturity dates or durations.

Assets measured at fair value on a recurring basis were presented on the Company’s Statement of Financial Position as of November 30, 2014 as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|------|-----------|---------|---------|-----------|
| Cash | \$ 61,365 | \$ - | \$ - | \$ 61,365 |

14. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting period the Company closed a first tranche of the March financing; issuing 653,000 flow-through units at \$0.075 per unit raising gross proceeds of \$48,975 and issuing 715,000 non-flow-through units at \$0.0675 per unit raising gross proceeds of \$48,262. Each unit consisted of one common share and one share purchase warrant. Each whole share purchase warrant entitles the holder to purchase a further share in the Company at a price of \$0.10 per share for 2 years after closing. Also as part of the financing, the Company issued 91,600 finders warrants exercisable at a price of \$0.10 per warrant for 2 years after closing.