



UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS

For the three and Nine month periods ended

February 28, 2017 and 2016



MANAGEMENT'S RESPONSIBILITY FOR INTERIM FINANCIAL REPORTING

The accompanying interim condensed financial statements of Kapuskasing Gold Corp. (the "Company") are the responsibility of management and the Board of Directors of the Company.

The unaudited interim condensed financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited interim condensed financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the balance sheet date. In the opinion of management, the unaudited interim condensed financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") using accounting policies consistent with IFRSs appropriate in the circumstances.

The Board of Directors is responsible for reviewing and approving the unaudited interim condensed financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited interim condensed financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited interim condensed financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

"Jonathan Armes"
President and Chief Executive Officer

"James Fairbairn"
Chief Financial Officer

NOTICE TO READER

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

The accompanying unaudited interim condensed financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation'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 unaudited interim condensed financial statements by an entity's auditor.

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

	February 28, 2016	May 31, 2016
	(Unaudited)	(Audited)
ASSETS		
CURRENT		
Cash	\$ 27,240	\$ 39,467
Prepaid expenses	6,252	525
Sales taxes receivable	6,021	2,636
	<u>39,513</u>	<u>42,628</u>
NON-CURRENT		
EXPLORATION AND EVALUATION ASSETS (Note 4)	236,541	516,214
	<u>\$ 276,054</u>	<u>\$ 558,842</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 5)	\$ 79,350	\$ 65,566
Flow-Through premium liability (Note 6)	-	-
	<u>79,350</u>	<u>65,566</u>
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	3,103,559	2,993,040
Shares subscriptions received (Notes 7)	-	9,000
Contributed surplus	1,209,677	1,027,354
Deficit	(4,116,532)	(3,536,118)
	<u>196,704</u>	<u>493,276</u>
	<u>\$ 276,054</u>	<u>\$ 558,842</u>

NATURE OF BUSINESS AND GOING CONCERN (Note 1)
 COMMITMENTS (Note 9) SUBSEQUENT EVENTS (Note 12)

Approved and authorized for issue on behalf of the Board on April 27, 2017:

"Signed"
 Jonathan Armes

"Signed"
 Andrew Davidson

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

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

	Three months ended February 28,		Nine months ended February 28,	
	2017	2016	2017	2016
GENERAL AND ADMINISTRATION:				
Bank charges	\$ 483	\$ 91	\$ 630	\$ 251
Consulting (Note 5)	14,875	45,490	52,425	143,144
Investor relations	15,967	(550)	36,324	45,303
Office and miscellaneous	(456)	93	910	1,671
Professional fees	469	(2,925)	4,470	20,278
Rent	-	750	-	250
Share-based compensation (Note 5)	-	-	80,234	-
Transfer agent and filing fees	5,710	8,264	15,233	15,924
	37,048	51,513	190,226	226,831
Other income on settlement of flow-through premium liability (Note 6)	(4,433)	(5,022)	(27,433)	(5,022)
Write down – exploration and evaluation assets	417,621	-	417,621	-
Gain on debt for shares settlement	-	(344,000)	-	(344,000)
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	\$ (450,236)	\$ 297,509	\$ (580,414)	\$ 122,192
INCOME (LOSS) PER COMMON SHARE, basic and diluted	\$ (0.01)	\$ 0.01	\$ (0.02)	\$ 0.00

Weighted Average number of common shares outstanding

Basic	38,180,986	22,895,312	37,076,146	22,895,312
Diluted	-	26,921,430	-	26,149,777

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

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

For the Nine months ended February 28,	2017	2016
OPERATING ACTIVITIES		
Net income (loss) for the period	\$ (580,414)	\$ 122,192
Items not involving cash:		
Share-based compensation	80,234	-
Other income on settlement of flow-through premium liability	(27,433)	(5,022)
Changes in non-cash working capital items:		
Prepaid expenses	(5,728)	5,102
Sales taxes receivable	(3,385)	36,347
Write down – exploration & evaluation assets	417,621	-
Accounts payable and accrued liabilities	(638)	158,260
Gain on debt for share settlement	-	(344,000)
	(119,743)	(27,121)
FINANCING ACTIVITIES		
Issuance of shares/units for cash	246,600	-
Shares subscriptions received	(9,000)	-
Share issue costs	(6,559)	-
	231,041	-
INVESTING ACTIVITIES		
Exploration and evaluation assets	(123,525)	(63,749)
	(123,525)	(63,749)
CHANGE IN CASH	(12,227)	(90,870)
CASH, BEGINNING OF YEAR	39,467	104,460
CASH, END OF PERIOD	\$27,240	\$13,590
SUPPLEMENTAL INFORMATION		
Exploration and evaluation assets included in accounts payable and accrued liabilities	\$ 14,424	\$ -
Warrants issued for exploration and evaluation assets	-	5,800
Shares issued for exploration and evaluation assets	-	6,000

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

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

	Number of Shares	Share Capital \$	Share Subscriptions Receivable/Received \$	Contributed Surplus \$	Deficit \$	Total Shareholders Equity \$
Balance, May 31, 2015	25,727,652	2,842,990	-	973,869	(3,614,210)	202,649
Issued for exploration and evaluation assets	200,000	6,000	-	-	-	6,000
Shares for debt settlement	3,440,000	68,800	-	-	-	68,800
Warrants issued for exploration and evaluation assets	-	-	-	5,800	-	5,800
Net income (loss) for the period	-	-	-	-	122,192	122,192
Balance, February 28, 2016	29,367,652	2,917,790	-	979,669	(3,492,018)	405,441
Issued for exploration and evaluation assets	250,000	15,500	-	-	-	15,500
Warrants issued for exploration and evaluation assets	-	-	-	2,935	-	2,935
Issued for cash pursuant to private placements	4,180,000	59,750	-	44,750	-	104,500
Issued pursuant to debt settlement agreements	-	-	-	-	-	-
Share subscriptions received	-	-	9,000	-	-	9,000
Net income (loss) for the period	-	-	-	-	(44,100)	(44,100)
Balance, May 31, 2016	33,797,652	2,993,040	9,000	1,027,354	(3,536,118)	493,276
Issued for exploration and evaluation assets	-	-	-	-	-	-
Warrants issued pursuant to private placement	-	(102,089)	-	102,089	-	-
Issued for cash pursuant to private placements	4,383,334	240,041	-	-	-	240,041
Premium on flow-through shares	-	(27,433)	-	-	-	(27,433)
Share based compensation	-	-	-	80,234	-	80,234
Share subscriptions received	-	-	(9,000)	-	-	(9,000)
Net loss for the period	-	-	-	-	(580,414)	(580,414)
Balance, February 28, 2017	38,180,986	3,103,559	-	1,209,677	(4,116,532)	196,704

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

**KAPUSKASING GOLD CORP.
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016
(Expressed in Canadian dollars)**

1. NATURE OF BUSINESS AND GOING CONCERN

Kapuskasing Gold Corp. (the "Company") 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 133 Richmond Street West, Suite 501 Toronto, ON. M5H 2L3. The Company's registered address is 700 West Georgia Street, 25th Floor, Vancouver, British Columbia, V7Y 1B3.

GOING CONCERN

The Company's principal business activities include the acquisition and exploration of mineral property assets. At February 28, 2016, 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 \$4,116,532 as at February 28, 2017. 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, 2017, the Company's current cash resources are insufficient to cover the expected expenditures in fiscal 2017. 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.

During the periods ended February 28, 2017 and 2016, the Company reported net (loss) of (\$580,414) and net income of \$122,192 respectively. Historically, the Company has recognized 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 xx, 2017.

2. BASIS OF PREPARATION

2.1 Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These Unaudited Condensed Interim Financial Statements of the Company have been prepared in accordance with International Accounting Standard ("IAS") 34, Interim Financial Reporting. The accounting policies applied in these Financial Statements are consistent with those used in the Company's Audited Financial Statements for the year ended May 31, 2016. There have been no changes from the accounting policies applied in the May 31, 2016 and 2015 Financial Statements.

2.2 Basis of Preparation and Functional and Presentation Currency

These unaudited interim condensed financial statements have been prepared under the historical cost basis, except for certain assets which are measured at fair value as explained in the accounting policies set out in Note 4 of the Company's annual audited financial statements for the years ended May 31, 2016 and 2015. In addition, these unaudited interim condensed financial statements have been prepared using the accrual basis of accounting except for cash flow information. Management advises readers of these unaudited interim condensed financial statements to review the audited financial statements and accompanying notes for the years ended May 31, 2016 and 2015 in conjunction with the review of these statements.

The financial statements are presented in Canadian Dollars, which is the functional currency of the Company.

**KAPUSKASING GOLD CORP.
NOTES TO THE UNAUDITED FINANCIAL STATEMENTS
FOR THE THREE AND NINE MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016
(Expressed in Canadian dollars)**

2. BASIS OF PREPARATION *(continued)*

2.3 Significant Accounting Judgments and Estimates

The preparation of interim condensed financial statements in conformity with IFRS requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions.

The most significant estimates and judgments relate to, but are not limited to, the following:

- determination of the flow-through share premium requires the use of estimates when using the residual method while calculating the premium associated with the issuance of flow-through shares compared with common shares;
- calculation of the fair value of share-based payments requires the use of estimates of inputs in the Black-Scholes option pricing valuation model;
- assessment of the carrying value of deferred acquisition costs at each reporting date to determine whether any indication of impairment exists. When an impairment exists, the calculation of recoverable amount requires the use of estimates and assumptions such as long-term commodity prices, discount rates, recoverable metals, and operating performance;
- ownership and control of property requires the use of judgment; and
- assessment of the going concern assumption as detailed in Note 1 to the financial statements.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Adoption of new and revised standards and interpretations

No new relevant standards were applied for the first time during the period ended February 28, 2016.

Future accounting pronouncements

Certain pronouncements were issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory and would be applicable to Kapuskasing Gold for annual periods on or after June 1, 2016. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

- IFRS 9 – Financial instruments ("IFRS 9"), was issued by the IASB in July 2014 and will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. A new hedge accounting model is introduced and represents a substantial overhaul of hedge accounting which will allow entities to better reflect their risk management activities in the financial statements. The most significant improvements apply to those that hedge non-financial risk, and so these improvements are expected to be of particular interest to non-financial institutions. The Company has yet to assess the full impact of IFRS 9.

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FOR THE THREE AND NINE MONTH PERIODS ENDED FEBRUARY 28, 2017 AND FEBRUARY 29, 2016
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4. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation asset expenditures during the period by nature are detailed as follows:

	2017	2016
	\$	\$
Drilling and assaying	72,095	-
Sampling, technical reports, data compilation and mapping	68,854	54,041
Total	140,949	54,041

Exploration and evaluation assets by properties are detailed as follows:

	Acquisition net	Exploration	Write downs	February 28, 2017	May 31, 2016
	\$	\$	\$	\$	\$
West Keefer	33,434	107,920	(141,354)	-	38,816
Borden North	114,020	60,260	(174,280)	-	174,280
Borden South	29,910	239	(30,149)	-	30,149
Golden Route	280	8,850	(9,130)	-	9,130
Chapleau West	34,340	-	(34,340)	-	34,340
Rollo	152,460	84,081		236,541	201,131
Schewabik	28,368	-	(28,368)	-	28,368
Total	392,812	261,350	(417,621)	236,541	516,214

WEST KEEFER PROPERTY, ONTARIO

On April 25, 2016 the Company entered into a Mineral Property Option Agreement to acquire a 100% interest in the West Keefer Property from an arm's length vendor for total consideration of \$200,000 and the issuance of a total of 500,000 common shares over a four year period as follows:

1. \$15,000 (paid) and the issuance of 200,000 common shares (issued at a fair value of \$12,000) on TSX-V acceptance (received April 28, 2016);
2. \$20,000 and the issuance of an additional 200,000 common shares on that date which is twelve (12) months from TSX-V acceptance;
3. \$30,000 and the issuance of an additional 100,000 common shares on that date which is twenty four (24) months from TSX-V acceptance;
4. \$40,000 on that date which is thirty six (36) months from TSX-V acceptance; and
5. \$95,000 on that date which is forty eight (48) months from TSX-V acceptance.

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4. EXPLORATION AND EVALUATION ASSETS *(continued)*

WEST KEEFER PROPERTY, ONTARIO (continued)

In the event that a National Instrument ("NI") 43-101 compliant resource estimate of 1,000,000 ounces of gold is delineated on the property, the Company will be obligated to provide to the vendor a bonus of \$1,000,000 (payable in cash or common shares at the election of the vendor). The vendor shall retain a 3% net smelter royalty ("NSR") interest while the Company retains the option to buy back 1.5% of the NSR for \$1,500,000.

On April 21, 2016, the Company issued 50,000 common shares (valued at \$3,500) and 50,000 share purchase warrants (valued at \$2,935) under a Memorandum of Understanding ("MOU") with certain First Nations bands in respect of the Company's West Keefer Property. Each warrant is exercisable into one additional common share of the Company at an exercise price of \$0.05 for a period of 5 years. The warrants will vest as follows:

- a) 25% on TSX-V acceptance (received May 17, 2016);
- b) 25% after six (6) months of the date of the MOU;
- c) 25% after twelve (12) months of the date of the MOU; and
- d) 25% after eighteen (18) months of the date of the MOU.

The Company has recorded the total fair value of \$6,435 as acquisition costs.

The MOU also specifies that the Company will pay an amount equal to 2.0% of all costs on direct exploration on the property to the First Nation bands. No amount has been accrued as payable as at May 31, 2016. This property has been written down, but maintains the claims.

CHAPLEAU REGION PROPERTIES, ONTARIO

BORDEN NORTH PROPERTY, ONTARIO

On February 27, 2014 the Company entered into a purchase agreement to acquire a 100% interest in the Borden North Property ("Borden North"). 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 an NI 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.

During the year ended May 31, 2015, the Company received regulatory approval for the agreement and issued the 600,000 shares (valued at \$78,000) to the vendors. The Vendors retain a 2% NSR, of which 1% may be repurchased for \$1,000,000. This property has been written down and the Company no longer has the claims.

BORDEN SOUTH PROPERTY, ONTARIO

During the year ended May 31, 2014, the Company acquired, by staking, the Borden South Property in Ontario. The total cost associated with the acquisition was \$27,550. This property has been written down and the Company no longer has the claims.

GOLDEN ROUTE PROPERTY, ONTARIO

During the year ended May 31, 2014, the Company acquired, by staking, the Golden Route Property in Ontario. The total cost associated with the acquisition was \$7,920.

On October 30, 2015, the Company sold a 0.5% NSR royalty interest, on certain claims within the group, to Ontario Exploration Corporation. The payment of \$5,000 has been recorded against the property's acquisition costs.

On May 15, 2016, the Company sold a 0.5% NSR royalty interest, on certain claims within the group, to Ontario Exploration Corporation. The payment of \$5,000 has been recorded against the property's acquisition costs. This property has been written down and the Company no longer has the claims.

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4. EXPLORATION AND EVALUATION ASSETS *(continued)*

CHAPLEAU REGION PROPERTIES, ONTARIO *(continued)*

CHAPLEAU WEST PROPERTY, ONTARIO

During the year ended May 31, 2014, the Company acquired, by staking, the Chapleau West Property in Ontario. The total cost associated with the acquisition was \$41,980.

On October 30, 2015, the Company sold a 0.5% NSR royalty interest, on certain claims within the group, to Ontario Exploration Corporation. The payment of \$5,000 has been recorded against the property's acquisition costs.

On May 15, 2016, the Company sold a 0.5% NSR royalty interest, on certain claims within the group, to Ontario Exploration Corporation. The payment of \$5,000 has been recorded against the property's acquisition costs. This property has been written down and the Company no longer has the claims.

ROLLO PROPERTY, ONTARIO

On February 25, 2014 the Company entered into a purchase agreement to acquire a 100% interest in the Rollo Property in Ontario ("Rollo"). 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 an NI 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.

During the year ended May 31, 2015, the Company received regulatory approval for the agreement and issued the 1,000,000 shares (valued at \$130,000) to the vendors. The vendors retain a 2% NSR, of which 1% may be repurchased for \$1,665,000. The Company retains 18 claims.

SCHEWABIK PROPERTY, ONTARIO

During the year ended May 31, 2014, the Company acquired, by staking, the Schewabik Property in Ontario. The total cost associated with the acquisition was \$28,368. This property has been written down and the Company no longer has the claims.

MEMORANDUM OF UNDERSTANDING ("MOU") WITH FIRST NATIONS

On October 23, 2015, the Company issued 200,000 common shares (valued at \$6,000) and 200,000 share purchase warrants (valued at \$5,800) under an MOU with certain First Nations bands in respect of the Company's Chapleau Region Properties (Borden North, Borden South, Golden Route, Chapleau West and Rollo). Each warrant is exercisable into one additional common share of the Company at an exercise price of \$0.05 for a period of 5 years. The warrants will vest as follows:

- a) 25% on TSX-V acceptance (received October 23, 2015);
- b) 25% after six (6) months of the date of the MOU;
- c) 25% after twelve (12) months of the date of the MOU; and
- d) 25% after eighteen (18) months of the date of the MOU.

The Company has allocated the total fair value of \$11,800 amongst the 5 Chapleau Region Properties and recorded the amounts as acquisition costs.

The MOU also specifies that the Company will pay an amount equal to 2.0% of all costs on direct exploration on the properties to the First Nation bands. No amount has been accrued as payable as at February 28, 2016.

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

5. RELATED PARTY TRANSACTIONS AND BALANCES

During the period ended February 28, 2016, the Company entered into transactions with related parties comprised of directors, officers and companies with common directors as follows:

Related party	Nature of transactions
Jonathan Armes, President & CEO	Consulting fees
James Fairbairn, CFO	Consulting fees

Included for the periods ended February 28, 2017 and 2016 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.

During the year ended May 31, 2016 the Company settled \$380,030 of related party debt, included in accounts payable and accrued liabilities by issuing 2,900,000 common shares of the Company and recognizing an associated gain in the amount of \$322,030.

Included in accounts payable and accrued liabilities is \$28,840 (May 31, 2016 - \$15,407) payable to directors and officers.

	2017	2016
Consulting	\$ 38,000	\$ 81,360
Stock based compensation	24,300	-
Totals	\$ 62,300	\$ 81,360

6. FLOW-THROUGH PREMIUM LIABILITY

During the period ended February 28, 2017, the Company closed financings and recorded a premium received on flow-through shares of \$27,433. As at February 28, 2017, the remaining liability is estimated at nil.

7. SHARE CAPITAL

a) Share capital

Authorized

Unlimited common shares without par value.

Issued and outstanding

As at February 28, 2017, the issued share capital is comprised of 38,180,986 common shares (May 31, 2016 – 33,797,652):

KAPUSKASING GOLD CORP.
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(Expressed in Canadian dollars)

7. SHARE CAPITAL *(continued)*

Fiscal 2016

- i. On October 23, 2015 the Company issued 200,000 shares at a value of \$0.03 per share (\$6,000) pursuant to the terms of the MOU with certain First Nations bands in respect of the Company's Chapleau Region Properties (Note 6). The Company also issued 200,000 share purchase warrants exercisable at a price of \$0.05 per share for 5 years after closing. A fair value of \$5,800 was allocated to the warrants using the Black-Scholes model with the following assumptions: term of 5 years, dividend yield 0%, expected volatility of 201.8%, and a risk free interest rate of 0.70%.
- ii. On February 3, 2016, the Company issued 3,440,000 shares at a value of \$0.02 per share (\$68,800) pursuant to a series of debt settlement agreements. In association with the share issuance, the Company recognized a gain in the amount of \$344,000.
- iii. On April 4, 2016, the Company issued 4,180,000 units at a price of \$0.025 per unit for gross proceeds of \$104,500. Each unit consisted of one non-flow-through common share and one share purchase warrant. Each share purchase warrant entitles the holder to purchase an additional non-flow-through common share in the Company at a price of \$0.05 per share for 2 years after closing. A fair value of \$44,750 was allocated to the warrants using the Black-Scholes model with the following assumptions: term of 2 years, dividend yield 0%, expected volatility of 182.1%, and a risk free interest rate of 0.55%.
- iv. On May 2, 2016 the Company issued 200,000 shares at a value of \$0.06 per share (\$12,000) pursuant to an agreement in respect of the Company's West Keefer Property (Note 6).
- v. On May 17, 2016 the Company issued 50,000 shares at a value of \$0.07 per share pursuant to the terms of the MOU with certain First Nations in respect of the Company's West Keefer Property (Note 6). The Company also issued 50,000 share purchase warrants exercisable at a price of \$0.05 per share for 5 years after closing. A fair value of \$2,935 was allocated to the warrants using the Black-Scholes model with the following assumptions: term of 5 years, dividend yield 0%, expected volatility of 201.4%, and a risk free interest rate of 0.71%.

Fiscal 2017

- i. On July 11, 2016 the Company closed a non-brokered financing for a total of 1,640,000 non-flow-through units at a price of \$0.05 per unit and 2,743,334 flow-through units at a price of \$0.06 per unit for aggregate gross proceeds of \$246,600. Each unit consisted of one common share (either flow-through or non-flow-through) and one common share purchase warrant. Each share purchase warrant entitles the holder to purchase an additional non-flow-through common share at a price of \$0.10 per share for 18 months after closing. A fair value of \$68,142 was allocated to the warrants using the Black-Scholes model with the following assumptions: term of 5 years, dividend yield 0%, expected volatility of 182.26%, and a risk free interest rate of 0.57%.

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-V. The stock options vest at the board's discretion.

On July 20, 2016, 1,650,000 options exercisable at \$0.05 and expiring on July 20, 2021 were granted. Share-based compensation of \$80,234 was recorded using the Black-Scholes Model with the following assumptions:

Expected term	5 years
Volatility	197%
Risk-free interest rate	0.62%
Expected dividend yield	nil

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7. 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 Model with the following assumptions:

Expected term	5 years
Volatility	172.8%
Risk-free interest rate	1.02%
Expected dividend yield	nil

(i) The following stock options were outstanding and exercisable as at February 28, 2016:

Number of Options	Exercise Price	Expiry Date
850,000	\$ 0.28	May 3, 2017
1,125,000	\$ 0.10	January 15, 2020
1,650,000	\$ 0.05	July 20, 2021

(ii) A summary of the changes to the Company's issued and outstanding stock options is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Life Remaining (in years)
Balance, May 31, 2016	1,975,000	\$0.18	1.96
Expired/ cancelled	-	-	-
Issued	1,650,000	\$0.05	4.64
Balance, February 28, 2017	3,625,000	\$0.12	3.18

c) Warrants and finders' warrants

(i) The following warrants were outstanding and exercisable as at February 28, 2017:

Warrants Outstanding	Warrants Exercisable	Exercise Price	Expiry Date
4,383,334	4,383,334	\$0.10	January 11, 2018
50,000	12,500	\$0.05	May 17, 2021
4,180,000	4,180,000	\$0.05	April 1, 2018
200,000	100,000	\$0.05	October 23, 2020
4,000,000	4,000,000	\$0.10	February 5, 2019
1,526,000	1,526,000	\$0.10	May 19, 2017
1,459,600	1,459,600	\$0.10	April 16, 2017
15,798,934	15,798,934		

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7. SHARE CAPITAL *(continued)*

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

(ii) A summary of the changes to the Company's issued outstanding share purchase warrants is as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, May 31, 2016	13,664,307	\$0.08
Expired	(2,248,707)	0.10
Issued	4,383,334	\$0.10
Balance, February 28, 2017	15,798,934	\$0.09

8. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted earnings (loss) per share for the periods ended February 28, 2017 and 2016 was based on the loss attributable to common shareholders of \$580,414 (2016 – income \$122,192) and the weighted average number of common shares outstanding of 38,180,986 (2016 – 29,367,652). None of the outstanding options and warrants had a dilutive impact during the period ended February 28, 2017.

9. COMMITMENTS

The Company is obligated to make certain payments and issue shares as described in Note 4 in connection with the acquisition and continued exploration of its exploration and evaluation assets and has approximately \$26,651 of unspent flow-through commitments.

10. 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, 2017, 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 year ended May 31, 2016.

11. 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 10.

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11. FINANCIAL INSTRUMENTS *(continued)*

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	\$	79,350	-	\$ 79,350

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.

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 February 28, 2017, the Company believes that the carrying values of accounts payable and accrued liabilities 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 Statements of Financial Position as of February 28, 2017, as follows:

		Level 1		Level 2		Level 3		Total
Cash	\$	27,240	\$	-	\$	-	\$	27,240

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12. SUBSEQUENT EVENTS

March 1, 2017 – The Company announced that it has signed a non-binding letter of intent to acquire (via asset purchase) a 100% interest in eight separate properties located in the province of Newfoundland and Labrador (NL).
April 4, 2017 – The Company announced that it has executed and finalized the agreement. The Company can purchase a 100% interest in all of the properties for total consideration of 7,500,000 shares, and a \$5,000 one time cash payment. The Vendors shall retain a 3% net smelter royalty (NSR) interest, or where applicable, a 3% Net Profit Royalty (NPR). The Company retains the option to buy back 2% of the NSR (or NPR) for \$1,000,000

March 23, 2017 the Company has acquired by staking a 100 per cent interest in 15 claims (375 hectares) located in the prolific mining area of Baie Vert, in the Springdale Peninsula area of Newfoundland. These claims are proximal and contiguous to the "Lady Pond Project". The Lady Pond Project is now composed of 33 claims (825 hectares) located approximately 45 kilometres from the Nugget Pond Milling Facility operated by Rambler Metals and Mining Canada PLC.

March 31, 2017 – The Company has signed a non-binding letter of intent whereby it can purchase a 100% interest in the Jumbo Copper/Cobalt Property for total consideration of 650,000 shares, and a \$3,000 onetime cash payment. The Vendor shall retain a 2% net smelter royalty (NSR) interest. The Company retains the option to buy back 1% of the NSR for \$1,000,000. On April 25, the Company has executed the agreement.

On April 25, 2017, the Company announced a non-brokered financing of up to 10,000,000 units of the Company at a price of \$0.05 per unit for gross proceeds of up to \$500,000. Each unit will consist of one common share in the capital of the Company and one common share purchase warrant. Each purchase warrant will be exercisable into one common share at \$0.10 for a period of 24 months from the closing of the financing. The Company is also arranging a non-brokered private placement of up to 4,166,666 flow-through ("FT") units of the Company at a price of \$0.06 per unit for gross proceeds of \$250,000. Each FT unit will consist of one common share issued on a flow-through basis within the meaning of the Income Tax Act (Canada) and one half share purchase warrant, each whole warrant exercisable at \$0.10 into one common share of the Company for a period of 24 months from the closing of the financing.