



**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS**

**For the three month periods ended**

**August 31, 2017 and 2016**

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**KAPUSKASING GOLD CORP.**  
**UNAUDITED INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION**  
**(Expressed in Canadian dollars)**

|   | August 31,<br>2017  | May 31,<br>2017   |
|---|---------------------|-------------------|
| <b>ASSETS</b>                                     |                     |                   |
| <b>CURRENT</b>                                    |                     |                   |
| Cash  | \$ 275,676          | \$ 53,058         |
| HST and other receivables (Note 3)                | 12,835              | 11,849            |
| Prepaid expenses                                  | 50,000              | 75,000            |
|   | <b>338,511</b>      | <b>139,907</b>    |
| <b>NON-CURRENT</b>                                |                     |                   |
| EXPLORATION AND EVALUATION ASSETS (Note 4)        | 686,016             | 653,016           |
|   | <b>\$ 1,024,527</b> | <b>\$ 792,923</b> |
| <b>LIABILITIES</b>                                |                     |                   |
| <b>CURRENT</b>                                    |                     |                   |
| Accounts payable and accrued liabilities (Note 5) | \$ 104,130          | \$ 103,656        |
| Flow-through premium liability (Note 6)           | 37,200              | 4,433             |
|   | <b>141,330</b>      | <b>108,089</b>    |
| <b>SHAREHOLDERS' EQUITY</b>                       |                     |                   |
| Share capital (Note 7)                            | 3,822,148           | 3,572,915         |
| Shares subscriptions received (Note 7)            | -                   | 136,500           |
| Contributed surplus                               | 1,324,921           | 1,184,321         |
| Deficit   | (4,263,872)         | (4,208,902)       |
|   | <b>883,197</b>      | <b>684,834</b>    |
|   | <b>\$ 1,024,527</b> | <b>\$ 792,923</b> |

NATURE OF BUSINESS AND GOING CONCERN (Note 1)  
BASIS OF PREPARATION (Note 2)  
COMMITMENTS (Note 9)

Approved and authorized for issue on behalf of the Board on October 18, 2017:

“Signed”  
Jonathan Armes

“Signed”  
Andrew Davidson

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

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

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| <b>For the three month period ended August 31,</b>                                 | <b>2017</b>        | <b>2016</b>  |
|--|--------------------|--------------|
| <b>GENERAL AND ADMINISTRATION:</b>   |                    |              |
| Consulting (Note 5)  | <b>\$ 10,600</b>   | \$ 21,400    |
| Investor relations   | <b>25,405</b>      | 12,149       |
| Office and miscellaneous   | <b>4,762</b>       | 688          |
| Professional fees  | <b>3,222</b>       | 2,576        |
| Share-based compensation (Note 7)  | <b>-</b>           | 82,234       |
| Transfer agent and filing fees   | <b>5,563</b>       | 7,734        |
|  | <b>(49,552)</b>    | (124,781)    |
| <hr/>  |                    |              |
| Other income on settlement of flow-through premium liability (Note 6)              | <b>1,100</b>       | 23,000       |
| Write down – exploration and evaluation assets                                     | <b>(6,518)</b>     | -            |
| <hr/>  |                    |              |
| <b>NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD</b>                              | <b>\$ (54,970)</b> | \$ (101,781) |
| <b>LOSS PER COMMON SHARE, basic and diluted</b>                                    | <b>\$ (0.00)</b>   | \$ (0.00)    |
| <hr/>  |                    |              |
| <b>WEIGHTED AVERAGE NUMBER OF<br/>COMMON SHARES OUTSTANDING, basic and diluted</b> | <b>51,680,332</b>  | 36,254,246   |
| <hr/>  |                    |              |

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

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

| <b>For the three month periods ended August 31,</b>                                    | <b>2017</b>       | <b>2016</b>      |
|--|-------------------|------------------|
| <b>OPERATING ACTIVITIES</b>  |                   |                  |
| Net loss for the period  | \$ (54,970)       | \$ (101,781)     |
| Items not involving cash:  |                   |                  |
| Share-based compensation   | -                 | 80,234           |
| Other income on settlement of flow-through premium liability                           | (1,100)           | (23,000)         |
| Write down – exploration & evaluation assets   | 6,518             | -                |
| Changes in non-cash working capital items:   |                   |                  |
| Prepaid expenses   | 25,000            | (18,226)         |
| HST and other receivables  | (986)             | (16,111)         |
| Accounts payable and accrued liabilities   | (6,044)           | (11,820)         |
|  | <b>(31,582)</b>   | <b>(90,704)</b>  |
| <b>FINANCING ACTIVITIES</b>  |                   |                  |
| Issuance of shares/units for cash  | 279,700           | 246,600          |
| Shares subscriptions received  | -                 | (9,000)          |
| Share issue costs  | (10,500)          | (6,559)          |
|  | <b>269,200</b>    | <b>231,041</b>   |
| <b>INVESTING ACTIVITIES</b>  |                   |                  |
| Exploration and evaluation assets  | (15,000)          | (126,872)        |
|  | <b>(15,000)</b>   | <b>(126,872)</b> |
| <b>CHANGE IN CASH</b>  | <b>222,618</b>    | <b>13,465</b>    |
| <b>CASH, BEGINNING OF PERIOD</b>   | <b>53,058</b>     | <b>39,467</b>    |
| <b>CASH, END OF PERIOD</b>   | <b>\$ 275,676</b> | <b>\$ 52,932</b> |
| <b>SUPPLEMENTAL INFORMATION</b>  |                   |                  |
| Exploration and evaluation assets included in accounts payable and accrued liabilities | \$ 6,518          | \$ 11,077        |
| Shares issued for exploration and evaluation assets                                    | 18,000            | 21,500           |

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

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

|  | Number of<br>Shares | Share<br>Capital | Share Subscriptions<br>Receivable/Received | Contributed<br>Surplus | Deficit     | Total<br>Shareholders'<br>Equity |
|--|---------------------|------------------|--|------------------------|-------------|----------------------------------|
|  |                     | \$               | \$   | \$                     | \$          | \$                               |
| Balance, May 31, 2016                          | 33,797,652          | 2,993,040        | 9,000                                      | 1,027,354              | (3,536,118) | 493,276                          |
| Issued for cash pursuant to private placements | 4,383,334           | 164,193          | (9,000)                                    | 82,407                 | -           | 237,600                          |
| Share issue costs (cash)                       | -                   | (6,559)          | -  | -                      | -           | (6,559)                          |
| Premium on flow-through shares                 | -                   | (27,433)         | -  | -                      | -           | (27,433)                         |
| Share based compensation                       | -                   | -                | -  | 80,234                 | -           | 80,234                           |
| Net loss for the period                        | -                   | -                | -  | -                      | (101,781)   | (101,781)                        |
| Balance, August 31, 2016                       | 38,180,986          | 3,123,241        | -  | 1,189,995              | (3,637,899) | 675,337                          |
| Issued for exploration and evaluation assets   | 8,350,000           | 417,500          | -  | -                      | -           | 417,500                          |
| Shares issued on exercise of warrants          | 530,000             | 32,174           | -  | (5,674)                | -           | 26,500                           |
| Share subscriptions received                   | -                   | -                | 136,500                                    | -                      | -           | 136,500                          |
| Net loss for the period                        | -                   | -                | -  | -                      | (571,003)   | (571,003)                        |
| Balance, May 31, 2017                          | 47,060,986          | 3,572,915        | 136,500                                    | 1,184,321              | (4,208,902) | 684,834                          |
| Issued for exploration and evaluation assets   | 400,000             | 18,000           | -  | -                      | -           | 18,000                           |
| Issued for cash pursuant to private placements | 7,646,664           | 416,200          | (136,500)                                  | -                      | -           | 279,700                          |
| Warrants issued pursuant to private placement  | -                   | (140,600)        | -  | 140,600                | -           | -                                |
| Share issue costs (cash)                       | -                   | (10,500)         | -  | -                      | -           | (10,500)                         |
| Premium on flow-through shares                 | -                   | (33,867)         | -  | -                      | -           | (33,867)                         |
| Net loss for the period                        | -                   | -                | -  | -                      | (54,970)    | (54,970)                         |
| Balance, August 31, 2017                       | 55,107,650          | 3,822,148        | -  | 1,324,921              | (4,263,872) | 883,197                          |

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

**KAPUSKASING GOLD CORP.  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE THREE MONTH PERIODS ENDED AUGUST 31, 2017 AND 2016  
(Expressed in Canadian dollars)**

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**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, 25<sup>th</sup> Floor, Vancouver, British Columbia, V7Y 1B3.

**GOING CONCERN**

The Company's principal business activities include the acquisition and exploration of mineral property assets. At August 31, 2017, 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.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and non-compliance with regulatory and environmental requirements.

The Company's ability to retain the rights to certain of its properties is dependent upon the Company continuing to make option payments and/or meet other commitments (see note 4).

The Company has an accumulated deficit of \$4,263,872 as at August 31, 2017 (May 31, 2017 - \$4,208,902). 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 August 31, 2017, the Company's current cash resources are insufficient to cover the expected expenditures in fiscal 2018. 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 three month periods ended August 31, 2017 and 2016, the Company reported net loss of \$54,970 and net loss of \$101,781 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 unaudited interim condensed 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.

## **2. BASIS OF PREPARATION**

### **2.1 Statement of Compliance**

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These unaudited interim condensed consolidated financial statements were authorized by the Board of Directors of the Company on October 18, 2017.

### **2.2 Basis of Preparation and Functional and Presentation Currency**

These unaudited condensed consolidated interim financial statements have been prepared on the basis of accounting policies and methods of computation consistent with those applied in the Company's December 31, 2016 annual financial statements.

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

### **2.3 Significant Accounting Judgments and Estimates**

The preparation of 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.

**KAPUSKASING GOLD CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE THREE MONTH PERIODS ENDED AUGUST 31, 2017 AND 2016**  
**(Expressed in Canadian dollars)**

**2. BASIS OF PREPARATION** (continued)

**2.4 Adoption of New and Revised Standards and Interpretations**

**New Accounting Pronouncements**

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after June 1, 2017 or later periods. 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 November 2009 with additions in October 2010 and May 2013 and will replace IAS 39 Financial Instruments: Recognition and Measurement (“IAS 39”). 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, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity’s own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. Earlier adoption is permitted. The Company has not yet determined the impact of the amendments on the Company’s financial statements.

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”). In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers. IFRS 15 specifies how and when to recognize revenue as well as requires entities to provide users of financial statements with more informative, relevant disclosures. The standard supersedes IAS 18, Revenue, IAS 11, Construction Contracts, and a number of revenue-related interpretations. Application of the standard is mandatory for all IFRS reporters and it applies to nearly all contracts with customers: the main exceptions are leases, financial instruments and insurance contracts. IFRS 15 must be applied in an entity’s first annual IFRS financial statements for periods beginning on or after January 1, 2018. Application of the standard is mandatory and early adoption is permitted. The Company has not yet determined the impact of the amendments on the Company’s financial statements.

IFRS 16 - In 2016, the IASB issued IFRS 16, Leases (“IFRS 16”), replacing IAS 17, Leases and related interpretations. The standard introduces a single on-balance sheet recognition and measurement model for lessees, eliminating the distinction between operating and finance leases. Lessors continue to classify leases as finance and operating leases. IFRS 16 becomes effective for annual periods beginning on or after January 1, 2019, and is to be applied retrospectively. Early adoption is permitted if IFRS 15, Revenue from Contracts with Customers (“IFRS 15”) has been adopted. The Company has not yet determined the impact of the amendments on the Company’s financial statements.

**3. HST AND OTHER RECEIVABLES**

| <i>As at</i>                           | <b>August 31, 2017</b> | May 31, 2017     |
|--|------------------------|------------------|
| HST receivable                         | \$ 2,835               | \$ 11,849        |
| Share subscriptions receivable (i)     | <b>10,000</b>          | -                |
| <b>Total HST and other receivables</b> | <b>\$ 12,835</b>       | <b>\$ 11,849</b> |

(i) Share subscription receivable is in connection with 200,000 shares issued at \$0.05 on the August 1, 2017 private placement described in note 7.

At August 31, 2017, the Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 11.

The Company holds no collateral for any receivable amounts outstanding as at August 31, 2017.

**KAPUSKASING GOLD CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE THREE MONTH PERIODS ENDED AUGUST 31, 2017 AND 2016**  
**(Expressed in Canadian dollars)**

**4. EXPLORATION AND EVALUATION ASSETS**

Exploration and evaluation asset expenditures during the three month periods ended August 31, 2017 and 2016, by nature are detailed as follows:

|   | <b>2017</b>   | <b>2016</b>    |
|---|---------------|----------------|
|   | <b>\$</b>     | <b>\$</b>      |
| Acquisition costs   | 33,000        | -              |
| Drilling and assaying                                     | -             | 72,095         |
| Sampling, technical reports, data compilation and mapping | 6,518         | 65,853         |
| <b>Total</b>  | <b>39,518</b> | <b>137,948</b> |

Exploration and evaluation assets by properties are detailed as follows:

|                      | <b>Acquisition<br/>net</b> | <b>Exploration</b> | <b>Write<br/>downs</b> | <b>August 31,<br/>2017</b> | <b>May 31,<br/>2017</b> |
|----------------------|----------------------------|--------------------|------------------------|----------------------------|-------------------------|
|                      | <b>\$</b>                  | <b>\$</b>          | <b>\$</b>              | <b>\$</b>                  | <b>\$</b>               |
| West Keefer          | 33,434                     | 124,437            | (157,871)              | -                          | -                       |
| Rollo                | 152,460                    | 84,081             |                        | 236,541                    | 236,541                 |
| Daniel's Harbour     | 10,000                     | -                  | -                      | 10,000                     | -                       |
| Sterling             | 23,000                     | -                  | -                      | 23,000                     | -                       |
| Alexis               | 12,460                     | -                  | -                      | 12,460                     | 12,460                  |
| Hayes                | 49,840                     | -                  | -                      | 49,840                     | 49,840                  |
| Cape Charles         | 28,030                     | -                  | -                      | 28,030                     | 28,030                  |
| Indian Head          | 93,440                     | -                  | -                      | 93,440                     | 93,440                  |
| Iron Mountain        | 62,300                     | -                  | -                      | 62,300                     | 62,300                  |
| Kings Court          | 46,720                     | -                  | -                      | 46,720                     | 46,720                  |
| Lady Pond            | 69,495                     | -                  | -                      | 69,495                     | 69,495                  |
| Ross Lake            | 18,690                     | -                  | -                      | 18,690                     | 18,690                  |
| Jumbo Copper/ Cobalt | 35,500                     | -                  | -                      | 35,500                     | 35,500                  |
| <b>Total</b>         | <b>635,369</b>             | <b>208,518</b>     | <b>(157,871)</b>       | <b>686,016</b>             | <b>653,016</b>          |

**KAPUSKASING GOLD CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE THREE MONTH PERIODS ENDED AUGUST 31, 2017 AND 2016**  
**(Expressed in Canadian dollars)**

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**4. EXPLORATION AND EVALUATION ASSETS** *(continued)*

*LADY POND, KINGS COURT, ALEXIS, HAYES, CAPE CHARLES, INDIAN HEAD, IRON MOUNTAIN, ROSS LAKE, NEWFOUNDLAND AND LABRADOR*

On April 3, 2017, the Company entered into a Mineral Property Acquisition Agreement to acquire a 100% interest in eight separate properties located in the province of Newfoundland and Labrador. As consideration for the properties, the Company was required to issue 7,500,000 common shares (issued at a fair value of \$375,000), and make a cash payment of \$5,000 (paid subsequently). The vendors shall retain a 3.0% net smelter return royalty ("NSR") interest, or where applicable, a 3.0% net profit return royalty ("NPR"). The Company retains the option to buy back 2.0% of the NSR (or NPR) for \$1,000,000.

The properties are termed the: Lady Pond (Cu, Co, Au, Ag) project, Kings Court (Cu, Co) project, Alexis (Co) project, Cape Charles (Co) project, Hayes (V) project, Indian Head (V) project, Iron Mountain (V) project, and the Ross Lake (V) project.

Management exercised judgment in allocating the total consideration of \$380,000 to the eight properties based on the number of claims acquired for each property.

In addition to the claims acquired under the Mineral Property Acquisition Agreement, the Company acquired through staking a 100% interest in 15 claims that form part of the Lady Pond Project.

*JUMBO COPPER/COBALT PROPERTY, NEWFOUNDLAND*

On April 19, 2017, the Company entered into a Mineral Property Option Agreement whereby it can purchase a 100% undivided interest in 76 claims comprising the Jumbo Copper/Cobalt Property for total consideration of 650,000 shares (issued at a fair value of \$32,500), and a \$3,000 one-time cash payment (paid subsequently).

The vendor shall retain a 2.0% NSR interest, 1.0% of which can be purchased by the Company for \$1,000,000.

*DANIELS HARBOUR PROPERTY, NEWFOUNDLAND*

On May 10, 2017, the Company signed a non-binding Letter of Intent to purchase a 100% undivided interest in 42 claims comprising the Daniels Harbour Property located on the Great Northern Peninsula of Newfoundland. Under the proposed terms, the Company can acquire the property for staged cash payments totaling \$60,000 (\$10,000 paid subsequently), issuing 1,750,000 common shares (1,000,000 shares issued subsequently) to the vendor, and carrying out \$100,000 in exploration by the second anniversary of TSX-V acceptance of the agreement.

The vendor shall retain a 3.0% NSR interest, 2.0% of which can be purchased by the Company for \$2,000,000.

On September 10, 2017, the Company entered into an agreement to acquire the Daniels Harbour Property according to the terms of the Letter of Intent.

On September 14, 2017, the Company executed and finalized the formal option agreement to earn a 100% interest in the Daniels Harbour Zinc Property located on the Great Northern Peninsula of Newfoundland, approximately 10 km's north east of the community of Daniels Harbour.

Pursuant to the Agreement, KAP may earn a 100% interest in the Daniels Harbour Property for total consideration of 1,750,000 shares, \$60,000 in cash payments and a work commitment of \$100,000 within the 24 months following TSX-V approval. The Vendor shall retain a 3% net smelter royalty ("NSR") interest. The Company retains the option to buy back 2% of the NSR for \$2,000,000. In the event KAP delineates a 43-101 compliant resource of 5,000,000 tonnes of ore grade zinc (Grade of at least 7% Zn), the vendor will receive a one-time bonus payment equating to CDN\$50,000 payable in cash or shares at the election of KAP on the day of which said report is filed on SEDAR.

*STERLING PROPERTY, NEWFOUNDLAND*

On May 3, 2017, the Company signed a non-binding Letter of Intent to purchase a 100% undivided interest in 28 claims comprising the Sterling Property located in Newfoundland. Under the proposed terms, the Company can acquire the property for staged cash payments totaling \$25,000 (\$5,000 paid subsequently), issuing 1,800,000 common shares (400,000 shares issued subsequently) to the vendor, and carrying out \$250,000 in exploration by the second anniversary of TSX-V acceptance of the agreement.

The vendor shall retain a 3.0% NSR interest, 2.0% of which can be purchased by the Company for \$2,000,000.

On August 21, 2017, the Company entered into an agreement to acquire the Sterling Property according to the terms of the Letter of Intent.

**KAPUSKASING GOLD CORP.**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE THREE MONTH PERIODS ENDED AUGUST 31, 2017 AND 2016**  
**(Expressed in Canadian dollars)**

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**4. EXPLORATION AND EVALUATION ASSETS** *(continued)*

*WEST KEEFER PROPERTY, ONTARIO*

On April 25, 2016, and amended April 27, 2017 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 Venture Exchange ("TSX-V") acceptance (received April 28, 2016);
2. the issuance of an additional 200,000 common shares on that date which is twelve (12) months from TSX-V acceptance (issued at a fair value of \$10,000);
3. \$50,000 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.

In the event that a 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% 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, 2017. This property has been written down, but the Company continues to maintain the claims and keep the option agreement in good standing.

**CHAPLEAU REGION PROPERTIES, ONTARIO**

*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.

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**4. EXPLORATION AND EVALUATION ASSETS** *(continued)*

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. 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 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 August 31, 2017.

**5. RELATED PARTY TRANSACTIONS AND BALANCES**

During the three month period ended August 31, 2017, the Company entered into transactions with related parties comprised of directors, officers and companies with common directors as follows:

| <b>Related party</b>            | <b>Nature of transactions</b> |
|---------------------------------|-------------------------------|
| Jonathan Armes, President & CEO | Consulting fees               |
| James Fairbairn, CFO            | Consulting fees               |

Included for the three month periods ended August 31, 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.

Included in accounts payable and accrued liabilities is \$64,000 (May 31, 2017 - \$46,000) payable to directors and officers.

|                          | <b>2017</b>      | <b>2016</b>      |
|--------------------------|------------------|------------------|
| Consulting               | \$ 11,000        | \$ 15,000        |
| Stock based compensation | -                | 24,300           |
| <b>Totals</b>            | <b>\$ 11,000</b> | <b>\$ 39,300</b> |

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**6. FLOW-THROUGH PREMIUM LIABILITY**

During the three month period ended August 31, 2017, the Company closed flow through financings (described in Note 7) and recorded a premium received on flow-through shares of \$33,867 which was recorded as a liability to be reversed to profit and loss when the eligible expenditures are incurred.

During the year ended May 31, 2017, the Company closed flow through financings (described in Note 7) and recorded a premium received on flow-through shares of \$27,433 which was recorded as a liability to be reversed to profit and loss when the eligible expenditures are incurred.

During the three month period ended August 31, 2017, the Company recognized income on settlement of flow-through premium liability in the amount of \$1,100 (2016 - \$23,000).

As at August 31, 2017, the remaining liability is estimated at \$37,200 (May 31, 2017 - \$4,433).

**7. SHARE CAPITAL**

**a) Share capital**

Authorized

Unlimited common shares without par value.

Issued and outstanding

As at August 31, 2017, the issued share capital is comprised of 55,107,650 common shares (May 31, 2017 – 47,060,986):

***Fiscal 2018***

- i. On June 12, 2017, the Company closed a non-brokered financing of 2,960,000 units of the Company at a price of \$0.05 per unit for gross proceeds of \$148,000. Each unit consists 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 also closed a non-brokered private placement of up to 886,664 flow-through units of the Company at a price of \$0.06 per unit for gross proceeds of \$53,200. Each flow-through unit consists of one common share 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.

A fair value of \$66,600 was allocated to the warrants using the Black-Scholes model with the following assumptions: term of 2 years, dividend yield 0%, expected volatility of 126 %, and a risk free interest rate of 0.83%.

- ii. On August 1, 2017 the Company closed a non-brokered private placement of 1,300,000 units of the Company at a price of \$0.05 per unit for gross proceeds of \$65,000. Each unit consists of one common share in the capital of the Company and one common share purchase warrant. The Company has also closed a non-brokered private placement of 2,500,000 flow-through units of the Company at a price of \$0.06 per flow-through unit for gross proceeds of \$150,000. Each flow-through unit consists of one common share and one warrant. Each warrant will be exercisable into one non-flow-through common share at \$0.10 for a period of 24 months from the closing of the financing. A cash commission of \$10,500 was paid to an arms' length finder.

A fair value of \$74,000 was allocated to the warrants using the Black-Scholes model with the following assumptions: term of 2 years, dividend yield 0%, expected volatility of 132 %, and a risk free interest rate of 1.26%.

- iii. On August 24, 2017, the Company issued 400,000 shares at a value of \$0.045 per share (\$18,000) pursuant to the Sterling Property Acquisition Agreement (Note 5).

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**7. SHARE CAPITAL** (continued)  
*Fiscal 2017*

- iv. 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%, 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 TSX-V 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. As at August 31, 2017, the Company had 2,735,765 (May 31, 2017 – 1,931,099) options available for issuance.

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

|  | Number<br>of Options | Weighted<br>Average<br>Exercise<br>Price |
|--|----------------------|--|
| Balance, May 31, 2016                            | 1,975,000            | \$0.18                                   |
| Issued   | 1,650,000            | \$0.05                                   |
| Expired/ cancelled                               | (850,000)            | \$0.28                                   |
| <b>Balance, May 31, 2017 and August 31, 2017</b> | <b>2,775,000</b>     | <b>\$0.07</b>                            |

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 option pricing model with the following assumptions:

|                         |         |
|-------------------------|---------|
| Expected term           | 5 years |
| Expected volatility     | 197%    |
| Risk-free interest rate | 0.62%   |
| Dividend yield          | nil     |

- (ii) The following table provides additional information about outstanding stock options at August 31, 2017:

| Expiry Date      | No. of Options<br>Outstanding | Weighted<br>Average<br>Remaining<br>Life<br>(Years) | Weighted<br>Average<br>Exercise<br>Price | No. of Options<br>Currently<br>Exercisable |
|------------------|-------------------------------|---|--|--|
| January 15, 2020 | 1,125,000                     | 2.37  | \$ 0.10                                  | 1,125,000                                  |
| July 20, 2021    | 1,650,000                     | 3.88  | \$ 0.05                                  | 1,650,000                                  |

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**7. SHARE CAPITAL** (continued)

**c) Warrants and finder's warrants**

(i) The following warrants were outstanding and exercisable as at August 31, 2017:

| Warrants Outstanding | Warrants Exercisable | Exercise Price | Expiry Date      |
|----------------------|----------------------|----------------|------------------|
| 4,383,334            | 4,383,334            | \$0.10         | January 11, 2018 |
| 3,650,000            | 3,650,000            | \$0.05         | April 1, 2018    |
| 4,000,000            | 4,000,000            | \$0.10         | February 5, 2019 |
| 3,403,332            | 3,403,332            | \$0.10         | June 12, 2019    |
| 3,800,000            | 3,800,000            | \$0.10         | August 1, 2019   |
| 200,000              | 200,000              | \$0.05         | October 23, 2020 |
| 50,000               | 37,500               | \$0.05         | May 17, 2021     |
| <b>19,486,666</b>    | <b>19,474,166</b>    |                |                  |

(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                          |
| Exercised                       | (530,000)          | \$0.05                          |
| Expired                         | (5,234,307)        | 0.10                            |
| Issued                          | 4,383,334          | \$0.10                          |
| <b>Balance, May 31, 2017</b>    | <b>12,283,334</b>  | <b>\$0.08</b>                   |
| Issued                          | 7,203,332          | \$0.10                          |
| <b>Balance, August 31, 2017</b> | <b>19,486,666</b>  | <b>\$0.09</b>                   |

**8. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE**

The calculation of basic and diluted loss per share for the three month periods ended August 31, 2017 and 2016 was based on the loss attributable to common shareholders of \$48,452 (2016 – \$101,781) and the weighted average number of common shares outstanding of 51,680,332 (2016 – 36,254,246). None of the outstanding options and warrants had a dilutive impact during the period ended August 31, 2017 and 2016.

**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 \$223,000 (May 31, 2017 - \$27,000) of unspent flow-through commitments.

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**10. MANAGEMENT OF CAPITAL**

The Company considers its capital to be equity, which is comprised of capital stock, reserve accounts and accumulated deficit, which as at August 31, 2017 totaled \$883,197 (May 31, 2017 - \$684,834). The Company's capital structure is adjusted based on the funds available to the Company such that it may continue exploration and development of its properties for the mining of minerals that are economically recoverable. The Board of Directors does not establish quantitative return on capital criteria, but rather relies on the expertise of management and other professionals to sustain future development of the business.

The Company's properties are in the exploration and development stage and, as a result, the Company currently has no source of operating cash flow. The Company intends to raise such funds as and when required to complete its projects. There is no assurance that the Company will be able to raise additional funds on reasonable terms. The only sources of future funds presently available to the Company are through the exercise of outstanding stock options or warrants, the sale of equity capital of the Company or the sale by the Company of an interest in any of its properties in whole or in part. The ability of the Company to arrange such financing in the future will depend in part upon the prevailing capital market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the six month period ended June 30, 2017. The Company is not subject to externally imposed capital restrictions.

**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.

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.

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**11. FINANCIAL INSTRUMENTS** (continued)

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:

|  |    | <b>&lt;1 year</b> | <b>1 – 3<br/>Years</b> | <b>Total</b> |
|--|----|-------------------|------------------------|--------------|
| Accounts payable and accrued liabilities | \$ | 104,130           | -                      | \$ 104,130   |

*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 August 31, 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 August 31, 2017, as follows:

|      | Level 1    | Level 2 | Level 3 | Total      |
|------|------------|---------|---------|------------|
| Cash | \$ 275,676 | \$ -    | \$ -    | \$ 275,676 |