



ANNUAL FINANCIAL STATEMENTS

**For the years ended
May 31, 2018 and 2017**

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Kapuskasung Gold Corp.

We have audited the accompanying financial statements of Kapuskasing Gold Corp., which comprise the statements of financial position as at May 31, 2018 and 2017, and the statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Kapuskasing Gold Corp. as at May 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Kapuskasing Gold Corp.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Professional Accountants

September 21, 2018

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

	May 31, 2018	May 31, 2017
ASSETS		
CURRENT		
Cash	\$ 60,093	\$ 53,058
HST and other receivables (Note 4)	3,376	11,849
Prepaid expenses	-	75,000
	63,469	139,907
NON-CURRENT		
EXPLORATION AND EVALUATION ASSETS (Note 5)	366,881	653,016
	\$ 430,350	\$ 792,923
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (Note 6)	\$ 71,267	\$ 103,656
Flow-through premium liability (Note 7)	-	4,433
	71,267	108,089
SHAREHOLDERS' EQUITY		
Share capital (Note 8)	3,948,106	3,572,915
Share subscriptions received (Note 8)	-	136,500
Contributed surplus	1,442,921	1,184,321
Deficit	(5,031,944)	(4,208,902)
	359,083	684,834
	\$ 430,350	\$ 792,923

NATURE OF BUSINESS AND GOING CONCERN (Note 1)
BASIS OF PREPARATION (Note 2)
COMMITMENTS (Note 10)

Approved and authorized for issue on behalf of the Board on September 21, 2018:

“Signed”
Jonathan Armes

“Signed”
James Fairbairn

The accompanying notes form an integral part of these financial statements

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

For the years ended May 31,	2018	2017
GENERAL AND ADMINISTRATION:		
Consulting (Note 6)	\$ 50,525	\$ 70,975
Investor relations	107,239	76,489
Office and miscellaneous	10,602	2,897
Professional fees	17,032	9,628
Share-based compensation (Note 8)	97,000	80,234
Transfer agent and filing fees	22,574	27,940
	(304,972)	(268,163)
Other income on settlement of flow-through premium liability (Note 7)	38,300	23,000
Recovery of previously written off exploration costs	33,669	-
Write down – exploration and evaluation assets	(590,039)	(427,621)
NET LOSS AND COMPREHENSIVE LOSS	\$ (823,042)	\$ (672,784)
LOSS PER COMMON SHARE, basic and diluted	\$ (0.01)	\$ (0.02)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, basic and diluted	56,334,683	38,602,009

The accompanying notes form an integral part of these financial statements

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

For the years ended May 31,	2018	2017
OPERATING ACTIVITIES		
Net loss	\$ (823,042)	\$ (672,784)
Items not involving cash:		
Share-based compensation	97,000	80,234
Other income on settlement of flow-through premium liability	(38,300)	(23,000)
Write down – exploration and evaluation assets	590,039	427,621
Changes in non-cash working capital items:		
Prepaid expenses	75,000	(74,475)
HST and other receivables	8,473	(9,213)
Accounts payable and accrued liabilities	(21,329)	23,589
	(112,159)	(248,028)
FINANCING ACTIVITIES		
Issuance of shares/units for cash	390,700	264,100
Share subscriptions received	-	136,500
Share issue costs	(18,542)	(6,559)
	372,158	394,041
INVESTING ACTIVITIES		
Exploration and evaluation assets	(252,964)	(132,422)
	(252,964)	(132,422)
CHANGE IN CASH	7,035	13,591
CASH, BEGINNING OF YEAR	53,058	39,467
CASH, END OF YEAR	\$ 60,093	\$ 53,058
SUPPLEMENTAL INFORMATION		
Exploration and evaluation assets included in accounts payable and accrued liabilities	\$ 12,339	\$ 23,399
Shares issued for exploration and evaluation assets	62,000	417,500

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/Received	Contributed Surplus	Deficit	Total Shareholders' Equity
		\$	\$	\$	\$	\$
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	8,350,000	417,500	-	-	-	417,500
Shares issued on exercise of warrants	530,000	32,174	-	(5,674)	-	26,500
Issued for cash pursuant to private placements	4,383,334	164,193	(9,000)	82,407	-	237,600
Share subscriptions received	-	-	136,500	-	-	136,500
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 year	-	-	-	-	(672,784)	(672,784)
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	1,700,000	62,000	-	-	-	62,000
Issued for cash pursuant to private placements	9,866,664	527,200	(136,500)	-	-	390,700
Warrants issued pursuant to private placement	-	(161,600)	-	161,600	-	-
Share issue costs (cash)	-	(18,542)	-	-	-	(18,542)
Premium on flow-through shares	-	(33,867)	-	-	-	(33,867)
Share based compensation	-	-	-	97,000	-	97,000
Net loss for the year	-	-	-	-	(823,042)	(823,042)
Balance, May 31, 2018	58,627,650	3,948,106	-	1,442,921	(5,031,944)	359,083

The accompanying notes form an integral part of these financial statements

**KAPUSKASING GOLD CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(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 May 31, 2018, 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 5).

The Company has an accumulated deficit of \$5,031,944 as at May 31, 2018 (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 May 31, 2018, the Company's current cash resources are insufficient to cover the expected expenditures in fiscal 2019. 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 year ended May 31, 2018 and 2017, the Company reported a net loss of \$823,042 and a net loss of \$672,784 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.

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 financial statements were authorized for issuance by the Board of Directors of the Company on September 21, 2018.

2.2 Basis of Preparation and Functional and Presentation Currency

These financial statements have been prepared on a going concern basis, under the historical cost convention, except fair value through profit and loss assets which are carried at fair value, and have been prepared using the accrual basis of accounting except for cash flow information, as explained in the accounting policies set out in Note 3.

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.

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, 2018 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 does not expect a significant impact from 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 does not expect a significant impact from 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 does not expect a significant impact from the amendments on the Company’s financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the presentation of these financial statements are set out below. These policies have been consistently applied to all the periods presented.

a) Exploration and evaluation assets

i. Pre-license expenditures

Pre-license expenditures are costs incurred before the legal rights to explore a specific area have been obtained. These costs are expensed in the period in which they are incurred as exploration and evaluation expense.

ii. Exploration and evaluation expenditures

Once the legal right to explore has been acquired, costs directly associated with the exploration project are capitalized as either tangible or intangible exploration and evaluation assets according to the nature of the asset acquired. Such exploration and evaluation costs may include undeveloped land acquisition, geological, geophysical and seismic, exploratory drilling and completion, testing, decommissioning and directly attributable internal costs. Exploration and evaluation costs are not depleted and are carried forward until technical feasibility and commercial viability of extracting a mineral resource is considered to be determined. The technical feasibility and commercial viability of a mineral resource is considered to be established when proved and or probable mineral reserves are determined to exist. All such carried costs are subject to technical, commercial and management review at least once a year to confirm the continued intent to develop or otherwise extract value from the exploratory activity. When this is no longer the case, impairment costs are charged to exploration and evaluation expense. Upon determination of mineral reserves, exploration and evaluation assets attributed to those reserves are first tested for impairment and then reclassified to development and production assets within property, plant and equipment, net of any impairment. Expired land costs are also expensed to exploration and evaluation expense as they occur.

The Company has not established any National Instrument ("NI") 43-101 compliant proven or probable reserves on any of its mineral properties which have been determined to be economically viable.

iii. Impairment

Exploration and evaluation assets are assessed for impairment when indicators and circumstances suggest that the carrying amount may exceed its recoverable amount. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Industry-specific indicators for an impairment review arise typically when one of the following circumstances applies:

- Substantive expenditure or further exploration and evaluation activities is neither budgeted nor planned;
- Title to the asset is compromised, has expired or is expected to expire;
- Adverse changes in the taxation, regulatory or political environment;
- Adverse changes in variables in commodity prices and markets making the project unviable; and
- Variations in the exchange rate for the currency of operation.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

b) Restoration, Rehabilitation, and Environmental Obligations

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the exploration or development of a mineral property interest. Such costs arise from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, along with a corresponding liability as soon as the obligation to incur such costs arises. The timing of the actual rehabilitation expenditure is dependent on a number of factors such as the life and nature of the asset, the operating license conditions and, when applicable, the environment in which the mine operates.

Discount rates using a pre-tax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either the unit-of-production or the straight line method. The corresponding liability is progressively increased as the effect of discounting unwinds creating an expense recognized in profit or loss. The Company has no restoration, rehabilitation and environmental obligations as at May 31, 2018 and 2017.

c) Cash

Cash in the statements of financial position is comprised of cash held at major financial institutions. The Company's cash is invested in business accounts which are available on demand by the Company.

d) Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred taxes. Income tax is recognized in profit or loss except to the extent that it relates to items recognized in other comprehensive income/loss or directly in equity, in which case it is recognized in other comprehensive income or loss or equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for unused tax loss carry-forwards and temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same tax authority and the group intends to settle its current tax assets and liabilities on a net basis.

e) Share Capital

Common shares and warrants are classified as equity. Incremental costs directly attributable to the issue of common shares, including warrants, are recognized as a reduction of equity, net of tax.

The Company has adopted a relative fair value method with respect to the measurement of shares and warrants issued as private placement units. The relative fair value method allocates value to each component on a pro-rata basis, based on the fair value of the components calculated independently of one another. The Company considers the market value of the common shares issued as fair value, and measures the fair value of the warrant component of the unit using the Black-Scholes option pricing model. The unit value is then allocated, pro-rata, between the two components (net of any flow-through share premium), with the fair value attributed to the warrants being recorded as contributed surplus.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

f) Flow-through shares

Where a portion of the Company's exploration activities is financed by flow-through share arrangements, under the terms of flow-through share agreements, the tax deductions of the related Canadian exploration expenditures ("CEE") are renounced in favour of the investors. Accordingly, flow-through proceeds are allocated between the offering of the common shares and the premium associated with the sale of tax benefits of the common shares at the date of issuance. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A liability is recognized for the premium paid by the investors and reversed in the statements of operations and comprehensive loss as a deferred income tax recovery ("other income") as the Company spends the flow-through proceeds.

g) Share-Based payments

Options and stand-alone warrants granted are accounted for using the fair value method. Under this method, the fair value of stock options and warrants granted are measured at estimated fair value at the grant date and recognized over the vesting period. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus on options granted is transferred to share capital.

Options and warrants granted to employees and others providing similar services are measured at grant date at the fair value of the instruments issued. The Company uses the Black-Scholes option pricing model to determine the fair value of these incentives taking into consideration terms and conditions upon which the options were granted. At each financial reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Options and warrants granted to non-employees are measured at the fair value of the goods or services received, unless that fair value cannot be estimated reliably, in which case the fair value of the equity instruments issued is used. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

h) Earnings (loss) per share ("EPS")

Basic EPS amounts are calculated by dividing net income (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted EPS amounts are calculated with consideration given to stock options and warrants, and assumes that any proceeds received on exercise of options or warrants would be used to purchase common shares at the average market price during the period.

Diluted EPS does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

i) Financial Instruments

Financial assets are classified into one of four categories:

- Fair value through profit or loss;
- Held-to-maturity;
- Available for sale and;
- Loans and receivables

The classification is determined at initial recognition and depends on the nature and purpose of the financial asset.

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

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVTPL if:

- It has been acquired principally for the purpose of selling in the near future;

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Financial Instruments *(continued)*

- It is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking; or
- It is a derivative that is not designated and effective as a hedging instrument.

The Company classifies its cash as FVTPL.

Held-to-maturity ("HTM")

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as HTM investments.

Available-for-sale financial assets ("AFS")

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (i) loans and receivables, (ii) held-to-maturity investments or (iii) financial assets as at FVTPL. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on AFS monetary items, are recognized in other comprehensive income or loss. When an investment is derecognized, the cumulative gain or loss in the investment revaluation reserve is transferred to profit or loss. The Company does not have any assets classified as AFS investments.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company does not have any assets classified as loans and receivables.

Derecognition of financial assets

A financial asset is derecognized when:

- The contractual right to the asset's cash flows expire; or
- If the Company transfers the financial assets and substantially all risks and rewards of ownership to another entity.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets is directly reduced by the impairment loss. With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss.

On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

i) Financial Instruments *(continued)*

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or equity in accordance with the substance of the contractual arrangement.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

i. *Other financial liabilities*

Other financial liabilities are initially measured at fair value, net of transaction costs, and are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expenses over the corresponding period. The effective interest rate is the rate that exactly discounts estimated future cash payments over the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Company has classified accounts payable and accrued liabilities as other financial liabilities.

ii. *Derecognition of financial liabilities*

The Company derecognizes financial liabilities only when the Company's obligations are discharged, cancelled or they expire.

j) Critical Accounting Estimates and Judgements

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual experience may differ from these estimates and assumptions.

The effect of a change in accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical accounting estimates and judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements are discussed below:

Judgements

Exploration and evaluation expenditures

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after an expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

Title to mineral property interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

**KAPUSKASING GOLD CORP.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED MAY 31, 2018 AND 2017
(Expressed in Canadian dollars)**

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

j) Critical Accounting Estimates and Judgements *(continued)*

Estimates

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 8.

Deferred taxes

The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. To the extent that future cash flows and taxable profit differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the reporting date could be impacted. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions in future periods from deferred income and resource tax assets.

4. HST AND OTHER RECEIVABLES

<i>As at</i>	May 31, 2018	May 31, 2017
HST receivable	\$ 3,376	\$ 11,849
Total HST and other receivables	\$ 3,376	\$ 11,849

At May 31, 2018, 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 12.

The Company holds no collateral for any receivable amounts outstanding as at May 31, 2018.

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5. EXPLORATION AND EVALUATION ASSETS

Exploration and evaluation asset expenditures during the years ended May 31, 2018 and 2017, by nature are detailed as follows:

	2018	2017
	\$	\$
Acquisition costs	77,000	8,975
Drilling and assaying	113,890	72,095
Sampling, technical reports, data compilation and mapping	113,014	65,854
Total	303,904	146,924

Exploration and evaluation assets by properties are detailed as follows:

	Acquisition net	Exploration	Write downs	May 31, 2018	May 31, 2017
	\$	\$	\$	\$	\$
West Keefer	33,434	124,437	(157,871)	-	-
Rollo	152,460	84,081	(236,541)	-	236,541
Daniel's Harbour	54,000	575	-	54,575	-
Sterling	23,000	67,217	-	90,217	-
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	152,594	-	222,089	69,495
Ross Lake	18,690	-	(18,690)	-	18,690
Jumbo Copper/ Cobalt	35,500	-	(35,500)	-	35,500
Total	679,369	428,904	(741,392)	366,881	653,016

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5. 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). 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.

As at May 31, 2018, the Company did not renew the claims on Kings Court, Alexis, Hayes, Cape Charles, Indian Head, Iron Mountain and Ross Lake, as such, the properties were written off.

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).

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

As at May 31, 2018, the Company did not renew the claims, as such, the property was written off.

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), issuing 1,750,000 common shares (1,000,000 shares issued) 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, the Company 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 the Company 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 the Company on the day of which said report is filed on SEDAR.

On February 8, 2018, the Company executed the asset purchase agreement for a 100% interest in the DH Unity Claims consisting of 30 claims (750 hectares) in the Daniels Harbour area, situated nearby the Company's Daniels Harbour Zinc Property. The Company can purchase a 100% interest in the DH Unity Claims Property for total consideration of 300,000 shares (issued), and a \$1,950 one time cash payment.

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5. EXPLORATION AND EVALUATION ASSETS *(continued)*

STERLING PROPERTY, NEWFOUNDLAND

On August 21, 2017, the Company entered into an agreement to acquire a 100% undivided interest in 28 claims comprising the Sterling Property located in Newfoundland. Under the terms of the agreement, the Company can acquire the property for staged cash payments totaling \$25,000 (\$5,000 paid), issuing 1,800,000 common shares (400,000 shares issued) to the vendor, and carrying out \$250,000 in exploration by the fourth 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.

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, 2018.

As at May 31, 2018, the Company did not renew the claims, as such, the property was written off.

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5. EXPLORATION AND EVALUATION ASSETS *(continued)*

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.

As at May 31, 2018, the Company did not renew the claims, as such, the property was written off.

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 May 31, 2018.

6. RELATED PARTY TRANSACTIONS AND BALANCES

During the year ended May 31, 2018, 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, former CFO	Consulting fees
Marco Guidi, CFO	Consulting fees

Included for the years ended May 31, 2018 and 2017 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.

As at May 31, 2018, included in accounts payable and accrued liabilities is \$20,000 (May 31, 2017 - \$46,000) payable to directors and officers.

	2018	2017
Consulting	\$ 45,500	\$ 57,000
Stock based compensation	60,000	48,600
Totals	\$ 105,500	\$ 105,600

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7. FLOW-THROUGH PREMIUM LIABILITY

During the year ended May 31, 2018, the Company closed flow through financings (described in Note 8) 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 8) 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 year ended May 31, 2018, the Company recognized income on settlement of flow-through premium liability in the amount of \$38,300 (2017 - \$23,000).

As at May 31, 2018, the remaining liability is estimated at \$nil (May 31, 2017 - \$4,433).

8. SHARE CAPITAL

a) Share capital

Authorized

Unlimited common shares without par value.

Issued and outstanding

As at May 31, 2018, the issued share capital is comprised of 58,627,650 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 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 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 is 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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8. SHARE CAPITAL (continued)

Fiscal 2018 (continued)

- iv. On September 18, 2017, the Company issued 1,000,000 shares at a value of \$0.035 per share (\$35,000) pursuant to the Daniels Harbour Property Acquisition Agreement (Note 5).
- v. On October 30, 2017 the Company closed a non-brokered private placement of 2,220,000 units of the Company at a price of \$0.05 per unit for gross proceeds of \$111,000. Each unit consists of one common share in the capital of the Company and one common share purchase warrant. Each warrant will be exercisable into one common share at \$0.075 for a period of 12 months from the closing of the financing.
- A fair value of \$21,000 was allocated to the warrants using the Black-Scholes model with the following assumptions: term of 1 year, dividend yield 0%, expected volatility of 120%, and a risk free interest rate of 1.38%.
- vi. On February 8, 2018, the Company issued 300,000 shares at a value of \$0.03 per share (\$9,000) pursuant to the DH Unity Claims acquisition Agreement (Note 5).

Fiscal 2017

- vii. 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 \$82,407 was allocated to the warrants using the Black-Scholes model with the following assumptions: term of 1.5 years, dividend yield 0%, expected volatility of 182%, and a risk free interest rate of 0.57%.
- viii. On April 24, 2017, the Company issued 7,500,000 shares at a value of \$0.05 per share (\$375,000) pursuant to a Mineral Property Acquisition Agreement to acquire eight separate properties located in Newfoundland and Labrador (Note 5).
- ix. On May 3, 2017, the Company issued 650,000 shares at a value of \$0.05 per share (\$32,500) pursuant to a Mineral Property Option Agreement to purchase the Jumbo Copper/Cobalt Property located in Newfoundland. The Company also issued 200,000 shares at a value of \$0.05 per share (\$10,000) pursuant to an agreement in respect of the Company's West Keefer Property (Note 5).

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 May 31, 2018, the Company had 337,765 (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 of Options	Weighted Average Exercise Price
Balance, May 31, 2016	1,975,000	\$0.18
Issued	1,650,000	\$0.05
Expired/ cancelled	(850,000)	\$0.28
Balance, May 31, 2017	2,775,000	\$0.07
Issued	2,750,000	\$0.05
Balance, May 31, 2018	5,525,000	\$0.06

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8. SHARE CAPITAL (continued)

b) Stock options (continued)

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

On October 12, 2017, 2,750,000 options exercisable at \$0.05 and expiring on October 12, 2022 were granted. Share-based compensation of \$97,000 was recorded using the Black-Scholes option pricing model with the following assumptions:

Expected term	5 years
Expected volatility	144%
Risk-free interest rate	1.75%
Dividend yield	nil

(ii) The following table provides additional information about outstanding stock options at May 31, 2018:

Expiry Date	No. of Options Outstanding	Weighted Average Remaining Life (Years)	Weighted Average Exercise Price	No. of Options Currently Exercisable
January 15, 2020	1,125,000	1.62	\$ 0.10	1,125,000
July 20, 2021	1,650,000	3.14	\$ 0.05	1,650,000
October 12, 2022	2,750,000	4.37	\$ 0.05	2,750,000

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8. SHARE CAPITAL (continued)

c) Warrants and finder's warrants

(i) The following warrants were outstanding and exercisable as at May 31, 2018:

Warrants Outstanding	Warrants Exercisable	Exercise Price	Expiry Date
2,220,000	2,220,000	\$0.075	October 30, 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	50,000	\$0.05	May 17, 2021
13,673,332	13,673,332		

(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
Balance, May 31, 2017	12,283,334	\$0.08
Issued	9,423,332	\$0.09
Expired	(8,033,334)	0.08
Balance, May 31, 2018	13,673,332	\$0.10

9. BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

The calculation of basic and diluted loss per share for the years ended May 31, 2018 and 2017 was based on the loss attributable to common shareholders of \$823,042 (2017 – \$672,784) and the weighted average number of common shares outstanding of 56,334,683 (2017 – 38,602,009). None of the outstanding options and warrants had a dilutive impact during the year ended May 31, 2018 and 2017.

10. COMMITMENTS

The Company is obligated to make certain payments and issue shares as described in Note 5 in connection with the acquisition and continued exploration of its exploration and evaluation assets and has approximately \$nil (May 31, 2017 - \$27,000) of unspent flow-through commitments.

11. MANAGEMENT OF CAPITAL

The Company considers its 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 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 year ended May 31, 2018. The Company is not subject to externally imposed capital restrictions.

12. 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 11.

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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12. 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:

		<1 year	1 – 3 Years	Total
Accounts payable and accrued liabilities	\$	71,267	-	\$ 71,267

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 May 31, 2018, 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 May 31, 2018, as follows:

		Level 1		Level 2		Level 3		Total
Cash	\$	60,093	\$	-	\$	-	\$	60,093

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13. INCOME TAXES

A reconciliation of income taxes at statutory rates (26% for both years presented) with the reported taxes is as follows:

	2018	2017
Income (loss) for the year	\$ (823,042)	\$ (672,784)
Expected income tax expense (recovery)	\$ (218,000)	\$ (175,000)
Change in statutory tax rates and other	104,000	13,000
Impact of flow-through shares	17,000	21,000
Permanent differences	54,000	21,000
Change in unrecognized deductible temporary differences	43,000	120,000
Total income tax expense (recovery)	\$ -	\$ -

The significant components of the Company's deferred tax assets that have not been included on the statement of financial position are as follows:

	2018	2017
Deferred tax assets		
Exploration and evaluation assets	\$ 334,000	\$ 358,000
Share issue costs	6,000	3,000
Non-capital losses available for future periods	618,000	554,000
	958,000	915,000
Unrecognized deferred tax assets	(958,000)	(915,000)
Net deferred tax assets	\$ -	\$ -

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:

	2018	Expiry Date Range	2017	Expiry Date Range
Temporary differences				
Exploration and evaluation assets	\$ 1,261,000	No expiry date	\$ 1,378,000	No expiry date
Share issue costs	22,000	2039 to 2042	13,000	2038 to 2041
Non-capital losses available for future periods	2,331,000	2030 to 2038	2,131,000	2029 to 2037

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