

# **K2 Gold Corporation**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018 AND 2017**

**In Canadian Dollars**

**Unaudited – Prepared by Management**

### **Notice of Non-review of Condensed Interim Financial Statements**

In accordance with National Instrument 51-102 Continuous Disclosure Obligations of the Canadian Securities Administrators, notice is given that the attached condensed interim financial statements for the nine-month period ended September 30, 2018 have not been reviewed by the Company's auditors.

**K2 Gold Corporation**  
**Statements of Financial Position**  
(Amounts are expressed in Canadian Dollars)

	Notes	September 30, 2018 (Unaudited)	December 31, 2017 (Audited)
<b>Assets</b>			
<b>Current Assets</b>			
Cash		\$ 521,750	\$ 403,411
Amounts receivable		30,688	49,170
Prepaid expenses		37,627	38,434
Investments		25,000	25,000
Marketable securities	4	57,399	48,568
		672,464	564,583
Exploration and evaluation assets	5	2,699,135	2,259,809
<b>TOTAL ASSETS</b>		<b>\$ 3,371,599</b>	<b>\$ 2,824,392</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 27,446	\$ 54,550
		27,446	54,550
<b>Shareholders' Equity (Deficit)</b>			
Share capital	7	14,243,622	13,118,108
Reserves	7	3,348,110	3,144,313
Accumulated other comprehensive income		46,361	37,530
Deficit		(14,293,940)	(13,530,109)
		3,344,153	2,769,842
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		<b>\$ 3,371,599</b>	<b>\$ 2,824,392</b>

Nature of operations and going concern (Note 1)

Commitments (Note 10)

Subsequent event (Note 12)

APPROVED ON BEHALF OF THE BOARD:

"Stephen Swatton", Director

"Craig Roberts", Director

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

**K2 Gold Corporation**  
**Statements of Loss and Comprehensive Loss**  
*(Amounts are expressed in Canadian Dollars)*

Notes	Three Months Ended September 30, 2018	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2018	Nine Months Ended September 30, 2017
<b>Expenses</b>				
Advertising, marketing and promotion	\$ 31,300	\$ 40,869	\$ 82,778	\$ 91,535
Consulting	23,512	38,896	24,142	115,938
Corporate listing and filing fees	12,408	6,395	33,843	32,586
Office and administration	7,768	10,295	31,407	30,605
Personnel	69,561	62,069	202,909	188,146
Professional fees	10,118	(1,175)	25,839	12,661
Rent	6,495	10,500	23,417	30,984
Share-based compensation	-	-	-	404,544
Travel and conferences	13,662	4,530	37,723	19,823
<b>Loss Before the Undernoted</b>	<b>(174,824)</b>	<b>(172,379)</b>	<b>(462,058)</b>	<b>(926,822)</b>
<b>Other Income (Expenses)</b>				
Interest income	3,346	-	5,708	-
Amortization of FT premium liability	7,151	-	16,000	-
Recovery of accounts payable	(299)	-	(274)	-
Write-off of exploration and evaluation assets	5 (5,706)	-	(323,207)	-
<b>Loss for the Period</b>	<b>(170,332)</b>	<b>(172,379)</b>	<b>(763,831)</b>	<b>(926,822)</b>
Unrealized gain (loss) on marketable securities	(5,298)	(41,945)	8,831	52,248
<b>Comprehensive Loss for the Period</b>	<b>\$ (175,630)</b>	<b>\$ (214,324)</b>	<b>\$ (755,000)</b>	<b>\$ (874,574)</b>
<b>Loss per share – basic and diluted</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>	<b>\$ (0.04)</b>	<b>\$ (0.06)</b>
<b>Weighted average number of common shares outstanding</b>	<b>23,439,944</b>	<b>18,122,546</b>	<b>20,653,752</b>	<b>15,645,731</b>

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

**K2 Gold Corporation**  
**Condensed Statements of Cash Flows**  
**For the Nine Months Ended September 30, 2018 and 2017**  
*(Amounts are expressed in Canadian Dollars)*

<b>Cash Provided By (Used In):</b>	<b>Notes</b>	<b>2018</b>	<b>2017</b>
<b>Operating activities:</b>			
Net loss for the period		\$ (763,831)	\$ (926,822)
Items not involving cash:			
Amortization of FT premium liability		(16,000)	-
Share-based compensation		-	404,544
Write-off of exploration and evaluation assets	5	323,207	-
Change in non-cash working capital items:			
GST recoverable		49,170	(39,034)
Accounts receivable		(30,688)	-
Prepaid expenses		807	(16,316)
Accounts payable and accrued liabilities		(27,104)	(145,362)
		(464,439)	(722,990)
<b>Investing activities:</b>			
Exploration and evaluation expenditures		(428,712)	(1,461,949)
		(428,712)	(1,461,949)
<b>Financing activities:</b>			
Proceeds from issuance of shares		1,046,500	1,350,426
Share issue costs		(35,010)	-
Proceeds from warrants exercised		-	31,107
		1,011,490	1,381,533
Net increase (decrease) in cash		118,339	(803,406)
Cash, beginning of period		403,411	1,533,672
Cash, end of period		\$ 521,750	\$ 730,266

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

**K2 Gold Corporation**  
**Statement of Changes in Shareholders' Equity (Deficit)**  
*(Amounts are expressed in Canadian Dollars)*

	Share Capital		Reserves	Accumulated Other Comprehensive Income	Deficit	Total
	Number of Shares	Amount				
<b>Balance, December 31, 2016</b>	<b>13,905,137</b>	<b>\$ 11,674,091</b>	<b>\$ 2,559,065</b>	<b>\$ 11,038</b>	<b>\$ (12,428,980)</b>	<b>\$ 1,815,214</b>
Shares issued for exploration & evaluation asset	1,100,000	392,500	-	-	-	392,500
Private placement – non-flow-through	2,301,400	805,490	-	-	-	805,490
Private placement – flow-through	986,250	394,500	-	-	-	394,500
Share issuance costs	-	(88,750)	31,686	-	-	(57,064)
Share-based compensation	-	-	404,544	-	-	404,544
Warrants exercised	89,000	31,107	-	-	-	31,107
Unrealized gain on marketable securities	-	-	-	52,248	-	52,248
Loss for the period	-	-	-	-	(926,822)	(926,822)
<b>Balance, September 30, 2017</b>	<b>18,381,787</b>	<b>\$ 13,208,938</b>	<b>\$ 2,995,295</b>	<b>\$ 63,286</b>	<b>\$ (13,355,802)</b>	<b>\$ 2,911,717</b>
<b>Balance, December 31, 2017</b>	<b>18,381,787</b>	<b>\$ 13,118,108</b>	<b>\$ 3,144,313</b>	<b>\$ 37,530</b>	<b>\$ (13,530,109)</b>	<b>\$ 2,769,842</b>
Shares issued for exploration & evaluation asset	1,385,283	333,821	-	-	-	333,821
Private placement – non-flow-through	3,802,000	755,093	195,407	-	-	950,500
Private placement – flow-through	320,000	96,000	-	-	-	96,000
Flow-through share premium	-	(16,000)	-	-	-	(16,000)
Share issuance costs – cash	-	(35,010)	-	-	-	(35,010)
Share issuance costs – warrants	-	(8,390)	8,390	-	-	-
Unrealized gain (loss) on marketable securities	-	-	-	8,831	-	8,831
Loss for the period	-	-	-	-	(763,831)	(763,831)
<b>Balance, September 30, 2018</b>	<b>23,889,070</b>	<b>\$ 14,243,622</b>	<b>\$ 3,348,110</b>	<b>\$ 46,361</b>	<b>\$ (14,293,940)</b>	<b>\$ 3,344,153</b>

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

# K2 Gold Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

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### 1. Nature of Operations and Going Concern

K2 Gold Corporation ("K2 Gold" or the "Company") was incorporated on May 3, 2011, pursuant to the Business Corporations Act of British Columbia, Canada. The Company's head office is located at Suite 1020 – 800 West Pender St., Vancouver, BC, V6C 2V6. The Company's common shares are publicly listed on the Toronto Stock Exchange's Venture Exchange (the "Exchange") under the symbol "KTO".

K2 Gold is an exploration stage company with its primary focus being the exploration of mineral properties in the Yukon Territory and Alaska.

The recoverability of amounts shown as mineral property interests is dependent upon the discovery of economically recoverable reserves, the Company's ability to obtain financing to develop its property and the ultimate realization of profits through future production or sale of its property. Realized values may be substantially different than carrying values as recorded in these financial statements.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to continue its operation as a going concern for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. At September 30, 2018, the Company had not achieved profitable operations and had an accumulated deficit. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

Although the Company has been successful in the past in obtaining financing, there can be no assurances that the Company will continue to obtain the additional financial resources necessary and/or achieve profitability or positive cash flows from its future operations. If the Company is unable to obtain adequate additional financing, the Company would be required to curtail its planned operations, exploration and development activities.

### 2. Basis of Presentation

#### a) Statement of Compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standards ("IAS") 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"). The accounting policies followed in these condensed interim financial statements are the same as those applied in the Company's most recent annual financial statements for the year ended December 31, 2017.

The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of September 30, 2018. The condensed interim financial statements should be read in conjunction with the Company's annual financial statements for the year ended December 31, 2017.

In management's opinion, all adjustments necessary for fair presentation have been included in these condensed interim financial statements. Interim results are not necessarily indicative of the results expected for the year ending December 31, 2018.

#### b) Approval of the Financial Statements

These financial statements were approved and authorized for issue by the Board of Directors on November 29, 2018.

#### c) Functional and Presentation Currency

The functional currency of a company is the currency of the primary economic environment in which the company operates. The presentation currency for a company is the currency in which the company chooses to present its financial statements.

# K2 Gold Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

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## 2. Basis of Presentation (continued)

### c) Functional and Presentation Currency (continued)

These condensed financial statements are presented in Canadian dollars, which is the Company's presentation and functional currency.

Transactions in foreign currencies are translated into the functional currency at exchange rates as at the date of the transaction. Foreign currency differences arising on translation are recognized in profit or loss. Foreign currency monetary assets and liabilities are translated at the functional currency exchange rate at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates as at the date of acquisition. All gains and losses on translation of these foreign currency transactions are included in profit or loss.

### d) Significant Accounting Policies

These unaudited condensed interim financial statements do not include all of the significant accounting policies required by IFRS for complete financial statements for year-end reporting purposes. These financial statements should be read together with the audited financial statements for the year ended December 31, 2017 which in Note 3 detail all significant accounting policies adopted by the Company.

The Company's accounting policies have been applied consistently to all periods presented in these unaudited condensed interim financial statements.

### e) Critical Accounting Judgments and Estimates

#### *Key Sources of Estimation Uncertainty and Critical Judgments*

The preparation of our financial statements requires us to make judgments regarding the Company's ability to continue as a going concern as discussed in Note 1.

The preparation of the financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. The following are the critical judgments and estimates that the Company has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the financial statements

#### *Deferred tax assets and liabilities*

The measurement of the deferred tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of deferred taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company's deferred tax assets and tax provisions could be affected.

#### *Useful life of equipment*

Each significant component of an item of equipment is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience and take into consideration the anticipated physical life of the asset, and the potential for technological obsolescence.

# K2 Gold Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

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## 2. Basis of Presentation (continued)

### e) Critical Accounting Judgments and Estimates (continued)

#### *Carrying value and recoverability of exploration and evaluation assets*

The carrying amount of the Company's exploration and evaluation assets do not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development and upon future profitable production or proceeds from the disposition of the mineral property interests themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its mineral property interests or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

## 3. Recent Accounting Pronouncements

The accounting policies in these condensed interim financial statements are consistent with those applied in the Company's audited consolidated financial statements as at and for the year ended December 31, 2017.

The Company has adopted IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers from January 1, 2018. The effect of initially applying these standards did not have a material impact on the Company's financial statements.

#### *New and Revised Standards and Interpretations*

##### ***IFRS 9 Financial Instruments***

IFRS 9 was issued by the IASB in November 2009 and replaced IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. 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. This standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. However, most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9 and, therefore, the accounting policy with respect to financial liabilities is unchanged.

The Company classifies its financial assets into one of the categories described below, depending on the purpose for which the asset was acquired:

Fair value through profit or loss ("FVTPL") – Financial assets carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the income statement. Realized and unrealized gains and losses arising from changes in the fair value of the financial asset held at FVTPL are included in the income statement in the period in which they arise. Derivatives are also categorized as FVTPL unless they are designated as hedges.

Fair value through other comprehensive income ("FVTOCI") - Investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income. There is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment.

Financial assets at amortized cost - A financial asset is measured at amortized cost if the objective of the business model is to hold the financial asset for the collection of contractual cash flows, and the asset's contractual cash flows are comprised solely of payments of principal and interest. They are classified as current assets or non-current assets based on their maturity date and are initially recognized at fair value and subsequently carried at amortized cost less any impairment.

Management determines the classification of its financial assets at initial recognition.

# K2 Gold Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

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### 3. Recent Accounting Pronouncements (continued)

#### *New and Revised Standards and Interpretations* (continued)

##### **IFRS 9 Financial Instruments** (continued)

The adoption of IFRS 9 has had no significant impact on the financial statements as the Company elected to value its marketable securities at FVOCI under IFRS 9 (previously classified as available for sale under IAS 39). Any subsequent gains or losses on these instruments under IFRS 9 will not be reclassified to profit and loss.

##### **IFRS 15 Revenue from Contracts with Customers**

The IASB issued IFRS 15, Revenue from Contracts with Customers, which provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related Interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service. This standard is effective for reporting periods beginning on or after January 1, 2018.

The adoption of this standard has not had any impact on the Company's financial statements.

##### **IFRS 16 Leases**

In January 2016, the IASB issued IFRS 16, replacing IAS 17, "Leases". IFRS 16 provides a single lessee accounting model and requires the lessee to recognize assets and liabilities for all leases on its balance sheet, providing the reader with greater transparency of an entity's lease obligation. This standard is effective for reporting periods beginning on or after January 1, 2019, with early adoption permitted.

The Company is planning to adopt this standard as of its effective date. The management estimates the adoption of the above standard, amendments and interpretations will not have a material impact on the results and financial position of the Company.

### 4. Marketable Securities

On June 17, 2015, the Company entered into a debt settlement agreement with Bluestone Resources Inc. ("Bluestone") whereby Bluestone issued 220,765 of its shares to settle the debt of \$11,038 owing to the Company. The shares were issued on July 20, 2015. The Bluestone shares were consolidated on the basis of one (1) new post-consolidation share for every five (5) pre-consolidation shares, effective May 24, 2017. As a result of this consolidation, K2 Gold Corporation owns 44,153 shares in Bluestone Resources Inc.

FVOCI investments consists of investments in common shares of publicly traded companies, and therefore has no fixed maturity date or coupon rate. The fair value of the listed investments has been determined directly by reference to published price quotations in an active market. The fair value of these common shares as at July 20, 2015, the date of the receipt of Bluestone shares, was \$11,038. The fair value as at September 30, 2018 was \$57,399.

# K2 Gold Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

## 5. Exploration and Evaluation Assets

<b>Wels Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2016</b>	<b>\$</b>	<b>365,057</b>	<b>32,373</b>	<b>397,430</b>
Cash Payment		100,000	-	100,000
Advanced royalty payment		20,000	-	20,000
Shares issued		467,500	-	467,500
Geology		-	519,991	519,991
Aviation		-	258,048	258,048
Land use and licenses		-	8,736	8,736
Community Relations		-	83,874	83,874
Travel		-	77,305	77,305
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>952,557</b>	<b>980,327</b>	<b>1,932,884</b>
Cash Payment		50,000	-	50,000
Advanced royalty payment		20,000	-	20,000
Shares issued		237,500	-	237,500
Geology		-	178,062	178,062
Aviation		-	37,124	37,124
Travel		-	41,459	41,459
<b>Balance, September 30, 2018</b>	<b>\$</b>	<b>1,260,057</b>	<b>1,236,972</b>	<b>2,497,029</b>

  

<b>Flume Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2016</b>	<b>\$</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash payment		25,000	-	25,000
Shares issued		32,500	-	32,500
Geology		-	91,874	91,874
Aviation		-	22,145	22,145
Land use and licenses		-	2,992	2,992
Travel		-	14,284	14,284
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>57,500</b>	<b>131,295</b>	<b>188,795</b>
Cash Payment		35,000	-	35,000
Shares issued		25,000	-	25,000
Geology		-	2,800	2,800
Travel		-	291	291
Write-off of exploration and evaluation assets		(117,500)	(134,386)	(251,886)
<b>Balance, September 30, 2018</b>	<b>\$</b>	<b>-</b>	<b>-</b>	<b>-</b>

  

<b>Storck Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2016</b>	<b>\$</b>	<b>-</b>	<b>-</b>	<b>-</b>
Aviation		-	34,441	34,441
Geology		-	39,862	39,862
Land use and licenses		-	1,931	1,931
Travel		-	695	695
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>-</b>	<b>76,929</b>	<b>76,929</b>
Geology		-	1,000	1,000
Travel		-	145	145
<b>Balance, September 30, 2018</b>	<b>\$</b>	<b>-</b>	<b>78,074</b>	<b>78,074</b>

## K2 Gold Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

### 5. Exploration and Evaluation Assets (continued)

<b>Ladue Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2016</b>	\$	-	-	-
Aviation		-	33,336	33,336
Land use and licenses		-	1,144	1,144
Geology		-	26,721	26,721
<b>Balance, December 31, 2017</b>	\$	-	<b>61,201</b>	<b>61,201</b>
Aviation		-	5,942	5,942
Geology		-	50,717	50,717
Travel		-	2,910	2,910
<b>Balance, September 30, 2018</b>	\$	-	<b>120,770</b>	<b>120,770</b>

  

<b>McArthur Creek Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2017</b>	\$	-	-	-
Geology		-	2,254	2,254
Land use and licenses		-	718	718
Travel		-	290	290
<b>Balance, September 30, 2018</b>	\$	-	<b>3,262</b>	<b>3,262</b>

  

<b>Total Exploration and Evaluation:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2017</b>	\$	<b>1,010,057</b>	<b>1,249,752</b>	<b>2,259,809</b>
<b>Balance, September 30, 2018</b>	\$	<b>1,260,057</b>	<b>1,439,078</b>	<b>2,699,135</b>

### Wels Property

The Company signed a definitive option agreement with Gorilla Minerals Corp. (now Go Cobalt Mining Corp.) on August 11, 2016, subsequently amended October 21, 2016 option, to acquire a 90% joint venture interest (subject an existing 3% net smelter return) in certain mineral property interests located in the Yukon Territory, known as the "Wels Property". On June 8, 2018, Gorilla Minerals Corp. announced that it is changing its name to Go Cobalt Mining Corp. ("Go Cobalt"). According to the agreement, to earn its interest, the Company will make cash payments aggregating \$350,000 staged over 24 months and issue 3 million common shares staged over a 30-month period as follows:

		<b>Cash option payments</b>		<b>Common shares issuance</b>	
Within 5 days after date of October 16, 2016	\$	50,000	(paid)	500,000	(issued)
On or before September 30, 2016		100,000	(paid)	-	
On or before February 11, 2017		-		500,000	(issued)
On or before August 11, 2017		100,000	(paid)	500,000	(issued)
On or before February 11, 2018		-		500,000	(issued)
On or before August 11, 2018		50,000	(paid)	500,000	(issued)
On or before November 11, 2018		50,000	(paid)	-	
On or before February 11, 2019		-		500,000	
<b>Total</b>	\$	<b>350,000</b>		<b>3,000,000</b>	<b>**</b>

\*\* Upon completion of the payments and share issuances, the Company and Go Cobalt will proceed under the terms of a joint venture agreement (the "Joint Venture"). Under the Joint Venture, the Company will fund the project fully through completion of a preliminary economic assessment, following which project expenditures will be funded on a 90/10 proportionate basis between the Company and Go Cobalt, respectively, with the Company acting as project manager and holding voting control of the Joint Venture project committee. If, at any time, either party's Joint Venture interest is diluted to less than 1.0%, that diluted party's interest will be cancelled, and the Joint Venture will terminate.

## K2 Gold Corporation

(An Exploration Stage Company)

### Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

#### 5. Exploration and Evaluation Assets (continued)

##### Wels Property (continued)

The Wels property is subject to 3% net smelter return ("NSR") governed by a 2011 agreement between Go Cobalt and two arm's length holders. The royalty agreement provides that 2% of the 3% NSR may be purchased from the royalty holders for cash payment of \$1,500,000. Pursuant to the Option Agreement, the Company will pay the \$20,000 annual advance royalty due under the 2011 agreement.

On February 6, 2018, the Company issued 500,000 shares to Go Cobalt pursuant to the Wels option agreement. The fair value of these common shares was \$122,500 as at the time of their issuance.

On July 23, 2018, the Company paid \$20,000 in royalty payments in connection with the Wels Property.

On August 2, 2018 issued 500,000 shares to Go Cobalt pursuant to the Wels option agreement. The fair value of these common shares was \$115,000 as at the time of their issuance.

On August 2, 2018, the Company paid \$50,000 in option payment; with Go Cobalt agreeing to defer the \$50,000 balance payment until November 11, 2018. Subsequent to the period ended September 30, 2018, the Company paid the \$50,000 balance payment to Go Cobalt completing the total cash payments in aggregate of \$350,000 pursuant to the Wels option agreement.

##### Flume Property

In March 2017, the Company entered into an option agreement with Commander Resources Ltd., ("Commander") to acquire up to a 100% interest in the Flume property located in the Yukon Territory.

To earn 60% of the Commander property, the Company must spend \$2 million in exploration (\$200,000 firm commitment in year one) and make staged cash and share payments as listed below.

	Cash option payments	Common shares issuance
Upon signing of agreement (March 6, 2017)	\$ 25,000 (paid)	100,000 (issued)
1 <sup>st</sup> anniversary of the agreement (March 6, 2018)	35,000 (paid)	100,000 (issued)
2 <sup>nd</sup> anniversary of the agreement (March 6, 2019)	50,000	150,000
3 <sup>rd</sup> anniversary of the agreement (March 6, 2020)	75,000	150,000
4 <sup>th</sup> anniversary of the agreement (March 6, 2021)	215,000	500,000
<b>Total</b>	<b>\$ 400,000</b>	<b>1,000,000</b>

The first anniversary cash and share issue payments were completed in April 2018. The fair value of the 100,000 shares issued was \$25,000.

Upon fulfillment of the initial option conditions, the Company will have the right to a further 40% (total 100%) in the property by making an additional \$3 million in expenditures, making additional cash payments of \$250,000, and issuing a further 2,000,000 shares to Commander. If the Company acquires a 100% interest the property and announces a production decision it will pay Commander either \$10 million in cash or \$5 million cash and \$5 million in shares of the Company.

On August 23, 2018, the Company elected to terminate the Flume Property Option Agreement with Commander. As part of the first-year exploration expenditure requirements under the Agreement, the Company had a firm commitment to spend \$200,000 on the Flume property. This commitment was not met and to satisfy the remaining outstanding amount of \$65,615, the Company and Commander entered into an agreement whereby the Company issued 285,283 common shares to Commander on September 25, 2018, to settle this amount. Upon termination and completion of the payment the Company will no longer have any interest in the Flume Property nor will it have any further obligations to Commander with respect to the Option Agreement.

# K2 Gold Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

### 5. Exploration and Evaluation Assets (continued)

#### Storck Property

During the year ended December 31, 2017, the Company staked certain claims near the Flume property, referred to as the Storck Property.

#### Ladue Property

During the year ended December 31, 2017, the Company staked certain claims in the eastern Moosehorn Range area of the Yukon territory known as the Ladue property. Further soil sampling results will be released in 2018.

#### McArthur Creek Property

During the nine months ended September 30, 2018, the Company staked 123 State of Alaska mining claims known as the McArthur Creek Property located in east-central Alaska, USA, 30 km northeast of Northway, Alaska and 130 km southwest of Dawson City, Yukon. The project is located on the Alaska-Yukon border, proximal to K2's Ladue Property and covers approximately 7400 ha. The new claims were filed with the Alaska State Department of Natural Resources on Fairbanks, AK.

### 6. Flow-through liability

Flow-through share premium liabilities include the liability portion of the flow-through shares issued. The following is a continuity schedule of the liability portion of the flow-through shares issuances:

	<b>September 30, 2018</b>	
<b>Balance at December 31, 2017 and 2016</b>	\$	-
Liability incurred on flow through shares issued		16,000
Settlement of flow through share liability on incurred expenditures, net of expensed flow-through share issue costs		(16,000)
<b>Balance at September 30, 2018</b>	<b>\$</b>	<b>-</b>

On June 12, 2018, the Company issued 320,000 flow-through common shares at a price of \$0.30 per share for gross proceeds of \$96,000. A premium of \$0.05 per share was recorded for the flow-through shares.

During the nine months ended September 30, 2018, the Company incurred \$96,000 of eligible flow-through expenditure, representing 100% of the commitment from flow-through share issuance in June 2018. A total premium liability of \$16,000 was amortized to Other Income on the Statement of Loss and Comprehensive Loss.

### 7. Share Capital

On May 25, 2015, the Company consolidated the Company's issued and outstanding common shares, stock options and warrants at a ratio of one new share for ten old shares. On March 2, 2016, the Company consolidated the Company's issued and outstanding common shares, stock options and warrants at ratio of one new share for four old shares. Unless otherwise indicated, all references to share capital, stock options and share purchase warrants presented in these financial statements and notes thereto are on a post-consolidation basis. The Company undertook this consolidation of its capital to facilitate future financings.

#### a) Authorized Share Capital

At September 30, 2018, the authorized share capital comprised an unlimited number of common shares without par value.

# K2 Gold Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

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## 7. Share Capital (continued)

### b) Issued Share Capital

#### Transactions for the nine months ended September 30, 2018

On February 6, 2018, the Company issued 500,000 shares with a value of \$122,500 as per the option agreement with Go Cobalt regarding the Wels property (Note 5).

On March 26, 2018, the Company issued 100,000 shares with a value of \$25,000 as per the agreement with Commander regarding the Flume property (Note 5).

On April 16, 2018, the Company extended the term of 4,000,000 common share purchase warrants with an exercise price of \$0.35 per share which were set to expire on April 27, 2018 to October 27, 2018.

On June 12, 2018, the Company closed a private placement and issued a total of 4,122,000 Common Shares for gross proceeds of \$1,046,500.

In connection with this private placement, the Company issued 3,802,000 non-flow-through units (each, a "NFT Unit") at a price of \$0.25, consisting of one common share and one full common share purchase warrant entitling the holder to acquire one additional common share at a price \$0.37 per share for a period of twelve months. The common share purchase warrants are subject to acceleration at the Company's discretion in the event the Company's common shares trade on a volume weighted average price (VWAP) basis of \$0.60 or more for a period of ten consecutive trading days. The Company also issued 320,000 flow-through units (each, a "FT Unit") at a price of \$0.30, consisting of one common share and one-half-of-one common share purchase warrant entitling the holder to acquire one additional common share at a price \$0.45 per share for a period of twelve months. The common share purchase warrants are subject to acceleration on the same terms as the NFT Unit warrants. A flow-through premium of \$16,000 was recorded in connection with the issuance of FT shares.

In connection with the financings completed in June 2018, the Company incurred cash share issue costs including finders' fees, legal, and other fees of \$35,010 in aggregate and non-cash share issue costs relating to the fair value of 136,200 finders' warrants issued of \$8,390. The finders' warrants value was calculated using a Black Scholes valuation model with the following assumptions: risk free rate of 1.89%, expected annual volatility of 103%, expected life of 1 year, expected dividend yield of 0%, and an exercise price of \$0.37 and \$0.45.

On August 2, 2018, the Company issued 500,000 shares with a fair value of \$115,000 as per the option agreement with Go Cobalt regarding the Wels property (Note 5).

On September 25, 2018, the Company issued 285,283 common shares to Commander to settle the debt owing to Commander under the terms of the termination of the Flume Property Option Agreement.

#### Transactions for the year ended December 31, 2017

On Feb 10, 2017, the Company issued 500,000 shares with a value of \$260,000 as per the option agreement with Go Cobalt (Note 5).

On March 15, 2017, the Company issued 100,000 shares as per the agreement with Commander regarding the Flume property (Note 5).

On June 28, 2017, the Company completed a non-brokered private placement of 2,301,400 units (the "Units") at a price of \$0.35 per unit and 986,250 flow-through shares (the "FT Shares") at a price of \$0.40 per FT Share, for gross proceeds of \$1,199,990 (the "Offering"). A flow-through premium of \$49,313 was recorded in connection with the issuance of FT Shares.

Each unit consisted of one common share of the Company (a "Share") and one-half of one nontransferable common share purchase warrant for a term of eighteen months (the "Warrants"). Each warrant will entitle the holder thereof to purchase one additional common share of the Company at an exercise price of \$0.55 per common share during the term of the warrants, subject to the right of the Company to accelerate the expiry of the warrants.

# K2 Gold Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

### 7. Share Capital (continued)

#### b) Issued Share Capital (continued)

##### Transactions for the year ended December 31, 2017 (continued)

If at any time after October 29, 2017 and during the warrant Term, the common shares of the Company close at a price at or above \$0.65 per share for more than 10 consecutive trading days (an "Acceleration Event") and the Company elects to accelerate the expiry of the warrants and give notice, within five days of such Acceleration Event, to the holders that an Acceleration Event has occurred, then the expiry of the warrants will be accelerated such that the warrants will then terminate 30 calendar days after the Company gives such notice (the "Accelerated Expiry").

In connection with the Offering, the Company entered into finder's fee agreements with four arm's length finders pursuant to which the Company issued 155,540 warrants ("Finder's warrants") and paid cash finders' fees in the aggregate of \$57,064 (the "Cash Finders Fee"). Each Finder's warrant has the same terms as the warrants issued under the Offering. The Finders' warrants were attributed a value of \$31,686 using a Black Scholes valuation model with the following assumptions: risk free rate of 1.05%, expected annual volatility of 116%, expected life of 1.5 years, expected dividend yield of 0%, and a share price at grant date of \$0.37.

On August 11, 2017, the Company issued an additional 500,000 shares with a value of \$207,000 as per the option agreement with Go Cobalt (Note 5).

During the year ended December 31, 2017, a total of 89,000 shares were issued on the exercise of warrants for total proceeds of \$31,150. In connection with the issuance, a total of \$8,989 equal to the grant date fair value of the warrants was transferred from reserves to share capital.

#### c) Warrants

Details of outstanding warrants are as follows:	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, December 31, 2016	8,314,510	\$ 0.39
Issued	1,306,240	\$ 0.55
Exercised	(89,000)	\$ 0.35
Expired	(178,310)	\$ 7.98
Outstanding warrants, December 31, 2017	9,353,440	\$ 0.27
Issued – unit warrants	3,919,000	\$ 0.37
Issued – finders' warrants	179,200	\$ 0.45
Exercised	-	-
Expired	(136,200)	\$ 0.35
Outstanding warrants, September 30, 2018	13,315,440	\$ 0.30

At September 30, 2018, the Company had outstanding warrants enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Number of Warrants	Weighted Remaining Contractual Life (in Years)
October 27, 2018	\$0.35	3,911,000	0.07
June 28, 2019	\$0.10	4,000,000	0.74
December 28, 2018	\$0.55	1,306,240	0.24
June 12, 2019	\$0.37	3,919,000	0.70
June 12, 2019	\$0.45	179,200	0.70
Weighted average exercise price and remaining contractual life	\$0.30	13,315,440	0.48

# K2 Gold Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

### 7. Share Capital (continued)

#### d) Stock Options

Under the Company's stock option plan, the board of directors may grant options for the purchase of up to 10% of the total number of issued and outstanding common shares of the Company. Options granted under the plan vest over time at the discretion of the board of directors and expire no later than ten years from the date of issuance. Exercise prices on options granted under the plan cannot be lower than the market price of one common share on the last trading day immediately preceding the day on which the option is granted, less the maximum applicable discount permitted by the Exchange.

The changes in stock options issued are as follows:

	Number of stock options	Weighted Average Exercise Price
Outstanding December 31, 2016	-	-
Issued	1,255,000	\$0.30
Expired	(5,000)	\$0.36
Outstanding, December 31, 2017	1,250,000	\$0.30
Issued	-	-
Expired	-	-
Cancelled	(20,000)	\$0.30
Outstanding September 30, 2018	1,230,000	\$0.30

The estimated grant date fair value of the options granted during 2017 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Number of options granted	1,255,000
Risk-free interest rate	1.02%
Expected annual volatility	171%
Expected life	5 years
Expected dividend yield	0%
Grant date fair value per option	\$0.32
Share price at grant date	\$0.34

At September 30, 2018, the Company had outstanding options enabling the holders to acquire common shares as follows:

Expiry Date	Options outstanding	Options exercisable	Exercise price	Weighted Remaining Contractual Life (in Years)
May 1, 2022	1,180,000	1,180,000	\$0.30	3.59
June 12, 2022	50,000	50,000	\$0.36	3.70
	1,230,000	1,230,000	\$0.30	3.59

### 8. Financial Instruments

#### a) Fair values

The Company has classified fair value measurements of its financial instruments using a fair value hierarchy that reflects the significance of inputs used in making the measurements as follows:

- Level 1: Valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and
- Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

# K2 Gold Corporation

(An Exploration Stage Company)

Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

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## 8. Financial Instruments (continued)

### a) Fair values (continued)

The fair value of cash, amounts receivable, investments, and accounts payables and accrued liabilities approximates their carrying value due to their short-term maturity. Marketable securities are measured using level one of the fair value hierarchy.

### b) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and amounts receivable.

Cash is held with major Canadian financial institutions and amounts receivable primarily consist of GST recoverable are from Government entities. Management is of the view that all amounts are fully collectible.

### c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they become due. The Company ensures that there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. Management believes that the Company has sufficient funds to meet its obligations as they become due or will be able to obtain financing as required to meet its obligations and commitments (see also Note 1).

### d) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and commodity and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

Investments in equity instruments which are classified as fair value through other comprehensive income and are measured at fair value, are listed on public stock exchanges, including TSX-V and OTC-QB. Recently, the markets have experienced extreme volatility. Therefore, sensitivity analysis is performed using 15%. For such investments, a 15% increase in equity prices as at September 30, 2018 would have increased investments in equity instruments by \$8,610. An equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above.

In the normal course of business, the Company enters into transactions for the purchase of supplies and services and acquisition of mineral properties, denominated in a currency other than the functional currency of the Company. As a result, the Company is subject to foreign exchange risk from fluctuations in foreign exchange rates, however the Management estimates the risk to be insignificant. The Company has not entered into any derivative or other financial instruments to mitigate this foreign exchange risk.

### e) Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can provide returns and benefits for shareholders and advance the exploration of its mineral properties.

The Company's policy is to maintain a strong capital base to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital and reserves, net of accumulated deficit. The Company depends on external financing to fund its activities and may issue new equity instruments to maintain its capital structure. The Company manages its capital structure through the preparation of operating budgets, which are approved by the Board of Directors.

# K2 Gold Corporation

(An Exploration Stage Company)

## Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018

(Unaudited - Expressed in Canadian Dollars)

### 8. Financial Instruments (continued)

#### e) Capital Management (continued)

There were no changes in the Company's approach to capital management during the period ended September 30, 2018. The Company is not subject to any externally imposed capital requirements.

### 9. Related Parties

#### Key management compensation

Key management consists of the Company's directors and officers. In addition to management and consulting fees paid to these individuals, or companies controlled by these individuals, the Company provides non-cash benefits. The aggregate value of compensation with key management for the nine months ended September 30, 2018 was \$193,000 (September 30, 2017 - \$547,940) and was comprised of the following:

	Nine Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Exploration expense – field work	\$	55,181	\$	-
Personnel		137,819		143,396
Share-based compensation		-		404,544
	\$	193,000	\$	547,940

Related party transactions and balances not disclosed elsewhere in these financial statements are as follows:

The balance payable to related parties at September 30, 2018 was \$nil (September 30, 2017 - \$274). These payables are generally unsecured, non-interest bearing and are expected to be repaid under normal trade terms.

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

### 10. Commitments

#### a) Flow-through shares

In June 2018 the Company issued flow-through shares and, as a result, committed to spend \$96,000 in qualifying exploration expenditures in 2018. During the nine months ended September 30, 2018, the Company fulfilled the above commitment.

#### b) Lease

The company entered into a lease agreement with a third party to rent an office space commencing May 1, 2018 to April 29, 2021 for \$2,165 per month. In addition to the monthly rental payments, the company is charged for the applicable GST costs.

The future rental payments are required as follows:

2018	\$6,495
2019	\$25,980
2020	\$25,980
2021	\$8,660

# **K2 Gold Corporation**

**(An Exploration Stage Company)**

**Notes to Condensed Interim Financial Statements for the Nine Months Ended September 30, 2018**

*(Unaudited - Expressed in Canadian Dollars)*

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## **11. Segment Information**

The Company operates in one reportable segment, being the acquisition, exploration and evaluation of mineral resources. All of the Company's equipment and exploration and evaluation assets are located in Canada and the United States.

## **12. Subsequent event**

Subsequent to the period ended September 30, 2018, the Company paid the \$50,000 balance payment to Go Cobalt completing the total cash payments in aggregate of \$350,000 pursuant to the Wels option agreement. (Note 5)