

# **K2 Gold Corporation**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019**

**In Canadian Dollars**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
K2 Gold Corporation

### *Opinion*

We have audited the accompanying consolidated financial statements of K2 Gold Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019 and the consolidated statements of loss and comprehensive loss, cash flows, and changes in shareholders' equity for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our opinion.

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the consolidated financial statements, which indicates that the Company has not achieved profitable operations and has an accumulated deficit as at December 31, 2020. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

Management is responsible for the other information. The other information obtained at the date of this auditor's report includes Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.



We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Erez Bahar.

A handwritten signature in black ink that reads "Davidson & Company LLP". The signature is written in a cursive, flowing style.

Vancouver, Canada

Chartered Professional Accountants

April 29, 2021

**K2 Gold Corporation**  
**Consolidated Statements of Financial Position**  
**For the Years Ended December 31, 2020 and 2019**  
*(Amounts are expressed in Canadian Dollars)*

	Note	December 31, 2020	December 31, 2019
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 7,404,497	\$ 2,880,811
Amounts receivable		21,811	18,298
Prepaid expenses		161,855	20,723
Marketable securities	4	-	61,373
		7,588,163	2,981,205
Exploration and evaluation assets	5,10	7,772,113	4,125,252
Reclamation Bond	5	63,660	-
<b>TOTAL ASSETS</b>		<b>\$ 15,423,936</b>	<b>\$ 7,106,457</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	10	\$ 317,712	\$ 271,223
<b>Long Term Liabilities</b>			
CEBA Loan	9	40,000	-
		357,712	271,223
<b>Shareholders' Equity</b>			
Share capital	6	26,487,173	18,063,244
Obligation to issue shares	6	106,500	-
Reserves	6	5,774,401	4,289,640
Accumulated other comprehensive income		-	50,335
Deficit		(17,301,850)	(15,567,985)
		15,066,224	6,835,234
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 15,423,936</b>	<b>\$ 7,106,457</b>

Nature of operations and going concern (Note 1)  
 Commitments (Note 12)  
 Subsequent Event (Note 14)

Approved on behalf of the Board of Directors on April 29, 2021

"Stephen Swatton", Director

"Craig Roberts", Director

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

**K2 Gold Corporation**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the Years Ended December 31, 2020 and 2019**  
*(Amounts are expressed in Canadian Dollars)*

	Note	2020	2019
<b>Expenses</b>			
Advertising, marketing and promotion	10	\$ 503,246	\$ 56,158
Consulting		6,622	4,757
Corporate listing and filing fees		66,639	76,070
Office and administration		57,882	41,993
Personnel	10	374,501	253,580
Professional fees		73,136	62,861
Property Investigation		-	5,026
Rent	10	28,257	25,980
Share-based compensation	10	351,808	467,784
Travel and conferences		43,080	64,519
<b>Loss Before the Undernoted</b>		<b>(1,505,171)</b>	<b>(1,058,728)</b>
<b>Other income (expenses)</b>			
Interest income		24,466	26,809
Write-off of exploration and evaluation assets	5	(315,803)	-
<b>Loss for the Year</b>		<b>(1,796,508)</b>	<b>(1,031,919)</b>
Change in fair value of marketable securities	4	12,308	8,390
<b>Comprehensive Loss for the Year</b>		<b>\$ (1,784,200)</b>	<b>\$ (1,023,529)</b>
<b>Loss per share – basic and diluted</b>		<b>\$ (0.04)</b>	<b>\$ (0.03)</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>		<b>47,179,476</b>	<b>31,974,284</b>

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

**K2 Gold Corporation**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2020 and 2019**  
*(Amounts are expressed in Canadian Dollars)*

<b>Cash Provided By (Used In):</b>	<b>2020</b>	<b>2019</b>
<b>Operating activities:</b>		
Net loss for the year	\$ (1,796,508)	\$ (1,031,919)
Items not involving cash:		
Share-based compensation	351,808	467,784
Write-off of exploration and evaluation assets	315,803	-
Change in non-cash working capital items:		
Accounts receivable	(3,513)	(11,714)
Prepaid expenses	(141,132)	23,519
Accounts payable and accrued liabilities	27,904	(952)
	(1,245,638)	(553,282)
<b>Investing activities:</b>		
Exploration and evaluation expenditures	(3,665,083)	(787,501)
Reclamation Bond	(63,660)	-
	(3,728,743)	(787,501)
<b>Financing activities:</b>		
Proceeds from issuance of shares	7,000,000	3,500,000
Share issue costs	(456,254)	(20,030)
Proceeds from warrants exercised	2,807,640	400,000
Proceeds from options exercised	33,000	-
Proceeds from CEBA Loan	40,000	-
Proceeds from sale of marketable securities	73,681	-
	9,498,067	3,879,970
Net increase in cash and cash equivalents	4,523,686	2,539,187
Cash and cash equivalents, beginning of year	2,880,811	341,624
Cash and cash equivalents, end of year	\$ 7,404,497	\$ 2,880,811

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

**K2 Gold Corporation**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2020 and 2019**  
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**Supplemental Schedule of Non-Cash investing and Financing Activities**

Exploration and evaluation assets included in accounts payable and accrued liabilities	\$	165,633	\$	219,352
Shares issued for exploration and evaluation assets	\$	244,800	\$	344,250
Shares issued for finders fees	\$	-	\$	229,284
Shares issued for finders fees for exploration and evaluation assets	\$	-	\$	69,148
Fair value allocation of units issued	\$	1,598,736	\$	586,153
Fair value of warrants exercised	\$	567,325	\$	112,000
Fair value of options exercised	\$	29,308	\$	-
Share issuance costs – non cash	\$	251,568	\$	-
Change in fair value of marketable securities	\$	12,308	\$	8,390
Obligation to issue shares for property	\$	106,500	\$	-
Share issuance costs included in accounts payable	\$	72,304	\$	-
Transfer AOCI balance to deficit	\$	62,643	\$	-
<hr/>				
<b>Cash and cash equivalents consist of:</b>				
Cash	\$	7,350,104	\$	2,855,811
Cashable Guaranteed Investment Certificate	\$	54,392	\$	25,000
<b>Cash paid during the year for interest</b>	\$	-	\$	-
<b>Cash paid during the year for income taxes</b>	\$	-	\$	-

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

**K2 Gold Corporation**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**For the Years Ended December 31, 2020 and 2019**  
*(Amounts are expressed in Canadian Dollars)*

	Share Capital		Obligation to issue shares	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
	Number of Shares	Amount					
<b>Balance, December 31, 2018</b>	<b>23,889,070</b>	<b>\$ 14,244,029</b>	<b>\$ -</b>	<b>\$ 3,347,703</b>	<b>\$ 41,945</b>	<b>\$ (14,536,066)</b>	<b>\$ 3,097,611</b>
Shares issued for exploration & evaluation assets	1,462,764	413,398	-	-	-	-	413,398
Private placement – non-flow-through	14,000,000	2,913,847	-	586,153	-	-	3,500,000
Share issued for private placement finders fees	694,800	-	-	-	-	-	-
Warrants exercised	4,000,000	400,000	-	-	-	-	400,000
Share issuance costs	-	(20,030)	-	-	-	-	(20,030)
Fair value of warrants exercised	-	112,000	-	(112,000)	-	-	-
Share-based compensation	-	-	-	467,784	-	-	467,784
Unrealized gain on marketable securities	-	-	-	-	8,390	-	8,390
Loss for the year	-	-	-	-	-	(1,031,919)	(1,031,919)
<b>Balance, December 31, 2019</b>	<b>44,046,634</b>	<b>\$ 18,063,244</b>	<b>\$ -</b>	<b>\$ 4,289,640</b>	<b>\$ 50,335</b>	<b>\$ (15,567,985)</b>	<b>\$ 6,835,234</b>
Shares issued for exploration & evaluation assets	480,000	244,800	-	-	-	-	244,800
Private placement – non flow through	12,500,000	5,401,264	-	1,598,736	-	-	7,000,000
Share issuance costs – non cash	-	(251,568)	-	251,568	-	-	-
Share issuance costs –cash	-	(407,840)	-	(120,718)	-	-	(528,558)
Warrants exercised	7,077,000	2,807,640	-	-	-	-	2,807,640
Fair value of warrants exercised	-	567,325	-	(567,325)	-	-	-
Options exercised	115,000	33,000	-	-	-	-	33,000
Fair value of options exercised	-	29,308	-	(29,308)	-	-	-
Obligation to issue shares for GDR property	-	-	106,500	-	-	-	106,500
Realized gain on marketable securities	-	-	-	-	12,308	-	12,308
Transfer AOCI balance to deficit	-	-	-	-	(62,643)	62,643	-
Share-based compensation	-	-	-	351,808	-	-	351,808
Loss for the year	-	-	-	-	-	(1,796,508)	(1,796,508)
<b>Balance, December 31, 2020</b>	<b>64,218,634</b>	<b>\$ 26,487,173</b>	<b>\$ 106,500</b>	<b>\$ 5,774,401</b>	<b>\$ -</b>	<b>\$ (17,301,850)</b>	<b>\$ 15,066,224</b>

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

**K2 Gold Corporation**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2020 and 2019**  
*(Amounts are expressed in Canadian Dollars)*

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**1. Nature of Operations and Going Concern**

K2 Gold Corporation (“K2 Gold”, “K2” 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 California, 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 consolidated financial statements.

These consolidated 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 December 31, 2020, 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 consolidated 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.

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. To date, there have been no adverse effects on the Company’s business or ability to raise funds.

**2. Basis of Presentation**

**a) Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). In addition, these consolidated financial statements have been prepared using interpretations issued by the International Financial Reporting Interpretation Committee (“IFRIC”) in effect at December 31, 2020 and the same accounting policies and methods of their application as the most recent annual financial statements of the Company, except the newly adopted standards and interpretations described below (Note 3).

**b) Approval of the consolidated financial statements**

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 29, 2021.

**K2 Gold Corporation**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
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**2. Basis of Presentation** (continued)

**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 consolidated financial statements.

These consolidated 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 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) Basis of consolidation:**

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries K2 Gold Alaska, Inc. ("K2 Gold Alaska") and Mojave Precious Metals Inc. ("Mojave Precious Metals"). The financial statements of K2 Gold Alaska and Mojave Precious Metals are included in the consolidated financial statements from the date on which control was transferred to the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All significant intercompany accounts and transactions have been eliminated on consolidation.

**e) Key Sources of Estimation Uncertainty and Critical Judgments**

***Critical judgements***

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

***Key sources of estimation uncertainty***

The preparation of the consolidated 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 consolidated 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 consolidated 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.

**K2 Gold Corporation**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2020 and 2019**  
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**2. Basis of Presentation** (continued)

***e) Key Sources of Estimation Uncertainty and Critical Judgments*** (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.

*Share-based compensation*

Share-based compensation expense is measured by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options 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 option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share-based compensation expense for the years ended December 31, 2020 and 2019 are disclosed in Note 6.

**3. Significant Accounting Policies**

**a) Exploration and evaluation assets**

Mineral property acquisition costs and related exploration costs, including option payments, are capitalized on an individual area of interest basis until the properties are brought into production, at which time they will be amortized on a unit-of-production basis, or until the properties are abandoned, sold or management determines that the mineral property is not economically viable, at which time the unrecoverable deferred costs are written off. Option payments arising on the acquisition of mineral property interests exercisable at the discretion of the Company are recognized as paid or payable.

Mineral property acquisition costs include cash consideration and the estimated fair value of common shares on the date of issue as provided under the agreed terms of acquisition for the mineral property interest.

Capitalized exploration and evaluation costs are those directly attributable costs related to the search for, and evaluation of, mineral resources, that are incurred after the Company has obtained the legal rights to explore a specific area and before the technical feasibility and commercial viability of a mineral reserve are demonstrable. Any costs incurred prior to obtaining the right to explore a mineral property are expensed as incurred as property investigation expense in the statement of loss and comprehensive loss.

Management reviews the carrying value of capitalized exploration and evaluation assets each reporting period for indications of impairment. Exploration and evaluation assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where information is available, and conditions suggest impairment, the fair value of the mineral property is determined using the estimated net cash flows for the mineral property taking into account proven and probable reserves and resources, estimated future prices and operating, capital and reclamation costs. In the case of undeveloped projects, there may be only inferred or indicated resources to form a basis for the impairment review. In such cases, the impairment review is based on the exploration and evaluation results to-date and a status report regarding the Company's intentions for development of the mineral property.

Recovery of the resulting carrying value of exploration and evaluation assets depends on the successful development or sale of the undeveloped project. If a project does not prove viable, all non-recoverable costs associated with the project are written off.

**K2 Gold Corporation**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2020 and 2019**  
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**3. Significant Accounting Policies** (continued)

**a) Exploration and evaluation assets** (Continued)

The amount presented, if any, for exploration and evaluation assets represents costs incurred to date and does not necessarily reflect present or future values.

**b) Financial instruments**

*Classification*

Financial assets are classified at initial recognition as either: measured at amortized cost, Fair value through profit or loss ("FVTPL"), or fair value through other comprehensive income ("FVTOCI"). The classification depends on the Company's business model for managing the financial assets and the contractual cash flow characteristics. For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income ("OCI").

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.

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 (loss). 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.

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL or the Company has opted to measure at FVTPL.

Under IFRS 9, the Company classifies its financial instruments as follows:

Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Marketable securities	Fair value through other comprehensive income
Reclamation bond	Amortized cost
Loan payable	Amortized cost
Accounts payable, Accrued liabilities	Amortized cost

*Measurement*

Financial assets and liabilities at FVTPL are initially recognized at fair value and transaction costs are expensed in the consolidated statement of loss and comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets or liabilities held at FVTPL are included in the consolidated statement loss and comprehensive loss in the period in which they arise. Where the Company has opted to designate a financial liability at FVTPL, any changes associated with the Company's credit risk will be recognized in OCI.

Financial assets and liabilities at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost less any impairment.

**K2 Gold Corporation**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2020 and 2019**  
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**3. Significant Accounting Policies** (continued)

**b) Financial instruments** (Continued)

*Impairment*

The Company assesses on a forward-looking basis the expected credit loss ("ECL") associated with financial assets measured at amortized cost, contract assets and debt instruments carried at FVTOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

**c) Impairment of Non-financial assets**

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. 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 profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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.

**d) Share-based compensation**

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Share-based payment arrangements in which the Company receives property or services as consideration for its own equity instruments are accounted for as equity settled share-based payment transactions. If the fair value of the property or service received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the property or service.

**e) Leases**

*Right of use assets and lease liability*

IFRS 16, Leases, was issued by the IASB in January 2016. It replaced IAS 17, Leases, for reporting periods beginning on or after January 1, 2019. The adopted IFRS 16, Leases standard establishes principles for recognition, measurement, presentation and disclosure of leases with an impact on lessee accounting, effective for annual periods beginning on or after January 1, 2019. The Company has assessed its office lease agreement and concluded that the agreement does not constitute the ability to direct the use (right to use) of the underlying office premises in the context of IFRS 16. As such, the adoption of the above standard has not had an impact on the results and financial position of the Company.

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**3. Significant Accounting Policies** (continued)

**f) Share Capital**

- i. The proceeds from the exercise of stock options, common share purchase warrants and purchase of common shares are recorded as share capital in the amount for which the option, warrant or share enabled the holder to purchase a common share in the Company.
- ii. Share capital issued for non-monetary consideration is recorded at an amount based on fair value of these common shares or the consideration received, whichever is more reliably estimated.
- iii. The proceeds from the issue of units is allocated between common shares and common share purchase warrants on a prorated basis using relative fair values of common shares and warrants. The fair value of common share purchase warrants is determined using the Black- Scholes option pricing model.
- iv. The Company may from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company separates the flow-through common share into i) a flow-through common share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and; ii) share capital. When the resource property expenditures are incurred, the Company derecognizes the liability and recognized as other income.

All costs related to issuances of share capital are charged against the proceeds received from the related share capital.

**g) Restoration, rehabilitation, and environmental costs**

An obligation to incur rehabilitation and site restoration costs arises when an environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. The Company is required to record as a liability the estimated present value of future cash flows associated with the statutory, contractual, constructive or legal obligations related to site restoration and rehabilitation when the liability is incurred, with a corresponding increase to the carrying value of the related assets.

The Company has no material restoration, rehabilitation or environmental liabilities as the disturbance to date are minimal.

**h) Income Taxes**

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date. As the Company is in a loss position there is no current tax payable.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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**3. Significant Accounting Policies** (continued)

**i) Loss per Common Share**

The Company presents basic and diluted loss per share data for its common shares. Basic loss per common share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive share equivalents, such as stock options and warrants and assumes the receipt of proceeds upon exercise of the dilutive securities to determine the number of shares assumed to be purchased at the average market price during the year.

**j) Comprehensive Income or Loss**

Comprehensive income or loss is the change in net assets arising from transactions and other events and circumstances from non-owner sources and comprises net income or loss and other comprehensive income or loss. Financial assets that are classified as Fair value through OCI will have revaluation gains and losses included in other comprehensive income or loss until the asset is removed from the statement of financial position.

**k) Recent Accounting Pronouncements**

On January 1, 2020, the Company adopted IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”). Those standards refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020 and must be applied prospectively. The adoption of the above did not have a material impact on the Company’s financial results.

**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 and had a fair value of \$11,038. 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 common shares in Bluestone Resources Inc.

The fair value as at December 31, 2020 was \$nil (2019: \$61,373), the Company also recognized an unrealized gain of \$12,308 (2019: \$8,390).

During the year ended December 31, 2020, the Company sold all Bluestone common shares resulting in proceeds of \$73,681.

Upon the disposal of these shares, the Company recognized a realized gain of \$62,643. In accordance with IFRS 9 – financial instruments, the Company elected to transfer the realized gain of \$62,643 from accumulated other comprehensive income (“AOCI”) to deficit.

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**5. Exploration and Evaluation Assets**

<b>Mojave Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2018</b>	<b>\$</b>	-	-	-
Taxes Paid		127,813	-	127,813
Legal		39,781	-	39,781
Cash Payment		150,244	-	150,244
Shares issued		225,148	-	225,148
Geology		-	270,343	270,343
Aviation		-	2,017	2,017
Travel		-	79,914	79,914
<b>Balance, December 31, 2019</b>	<b>\$</b>	<b>542,986</b>	<b>352,274</b>	<b>895,260</b>
Cash Payment		316,964	-	316,964
Legal		164,876	-	164,876
Shares issued		244,800	-	244,800
Geology		-	1,425,597	1,425,597
Aviation		-	407,501	407,501
Land use & Licenses		-	170,574	170,574
Community Relations		-	97,500	97,500
Permitting		-	601,666	601,666
Monitoring		-	30,582	30,582
Travel		-	357,364	357,364
<b>Balance, December 31, 2020</b>	<b>\$</b>	<b>1,269,626</b>	<b>3,443,058</b>	<b>4,712,684</b>

  

<b>Wels Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>1,310,057</b>	<b>1,251,382</b>	<b>2,561,439</b>
Advanced royalty payment		20,000	-	20,000
Shares issued		127,500	-	127,500
Aviation		-	37,321	37,321
Community relations		-	2,649	2,649
Geology		-	70,707	70,707
Travel		-	36,221	36,221
<b>Balance, December 31, 2019</b>	<b>\$</b>	<b>1,457,557</b>	<b>1,398,280</b>	<b>2,855,837</b>
Advanced royalty payment		20,000	-	20,000
Community relations		-	100	100
Geology		-	16,740	16,740
<b>Balance, December 31, 2020</b>	<b>\$</b>	<b>1,477,557</b>	<b>1,415,120</b>	<b>2,892,677</b>

  

<b>Ladue Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2018</b>	<b>\$</b>	-	<b>135,326</b>	<b>135,326</b>
Aviation		-	7,500	7,500
Geology		-	22,384	22,384
Land use and licenses		-	1,087	1,087
Travel		-	455	455
<b>Balance, December 31, 2019 and 2020</b>	<b>\$</b>	-	<b>166,752</b>	<b>166,752</b>

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

<b>McArthur Creek Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>8,236</b>	<b>-</b>	<b>8,236</b>
Geology		-	38,467	38,467
Aviation		-	6,389	6,389
Land use and licenses		-	20,834	20,384
Travel		-	27	27
<b>Balance, December 31, 2019</b>	<b>\$</b>	<b>8,236</b>	<b>65,717</b>	<b>73,953</b>
Write off Mineral Property		(8,236)	(65,717)	(73,953)
<b>Balance, December 31, 2020</b>	<b>\$</b>	<b>-</b>	<b>-</b>	<b>-</b>

  

<b>GDR Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash Payment		18,000	-	18,000
Shares issued		60,750	-	60,750
Geology		-	43,582	43,582
Aviation		-	721	721
Travel		-	10,397	10,397
<b>Balance, December 31, 2019</b>	<b>\$</b>	<b>78,750</b>	<b>54,700</b>	<b>133,450</b>
Shares issued		106,500	-	106,500
Geology		-	1,800	1,800
Community Relations		-	100	100
Write off Mineral Property		(185,250)	(56,600)	(241,850)
<b>Balance, December 31, 2020</b>	<b>\$</b>	<b>-</b>	<b>-</b>	<b>-</b>

  

<b>Total Exploration and Evaluation:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2019</b>	<b>\$</b>	<b>2,087,529</b>	<b>2,037,723</b>	<b>4,125,252</b>
<b>Balance, December 31, 2020</b>	<b>\$</b>	<b>2,747,183</b>	<b>5,024,930</b>	<b>7,772,113</b>

**Mojave Project**

On July 12, 2019, K2 signed an option agreement to acquire a 100% interest in the Mojave Gold Project ("Mojave Project").

To earn 100% of the Mojave project, the Company must make staged cash and share payments as listed below:

		<b>Cash option payments</b>		<b>Common shares issuance</b>
July 12 2019 (Effective date)	US\$	112,500	(paid)	480,000 (issued)
6-months from the effective date		112,500	(paid)	
12-months from the effective date		125,000	(paid)	480,000 (issued)
18-months from the effective date		125,000	(paid)	
24-months from the effective date		150,000		480,000
30-months from the effective date		150,000		
36-months from the effective date		175,000		480,000
42-months from the effective date		175,000		
48-months from the effective date		275,000		480,000
<b>Total</b>	<b>US\$</b>	<b>1,400,000</b>		<b>2,400,000</b>

In addition, following the exercise of its option, K2 has agreed to make an annual pre-production payment of US\$275,000 per year until the achievement of commercial production and to grant a 3% NSR with respect to all mineral produced from the Mojave Project, subject to a minimum annual royalty payment following commercial production of

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

**Mojave Project (continued)**

US\$300,000. The royalty will be subject to certain buy-down rights in K2's favour. K2 may terminate the Agreement at any time during the option period.

During the year ended December 31, 2019, the Company paid \$127,813 (US\$ 96,089) for land taxes and \$31,410 (US\$ 23,586) for legal fees pursuant to Mojave Project option agreement. The Company completed the first cash option payment of \$150,244 (US\$ 112,500) and issued 480,000 common shares at a price of \$0.325 pursuant to the Mojave Project option agreement with a fair value of \$156,000. In connection with the Mojave Project agreement, the Company issued 212,764 common shares at a price of \$0.325 with a fair value of \$69,148 as finders' fees (Note 6).

On January 9, 2020, the Company completed the second cash option payment of \$147,139 (US\$ 112,500) pursuant to Mojave Project option agreement. On July 3, 2020, the Company completed the third cash option payment of \$169,825 (US\$125,000) and issued 480,000 common shares at a price of \$0.51 with a fair value of \$244,800 pursuant to Mojave Project option agreement. Subsequent to December 31, 2020, the Company completed the fourth cash payment of \$160,775 (US\$125,000).

During the year ended December 31, 2020, the Company paid \$164,786 (US\$ 120,214) for legal fees pursuant to Mojave Project option agreement

In August 2020, the Company was required to post a bond in the amount of \$63,660 (\$50,000 USD) with the Bureau of Land Management ("BLM") for reclamation work associated with the Mojave Property.

**Wels Property**

The Company signed a definitive option agreement with Go Metals Corp. "Go Metals" (formerly "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". To earn its interest, the Company made cash payments aggregating \$350,000 staged over 24 months and issued 3,000,000 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	(issued)
<b>Total</b>	<b>\$</b>	<b>350,000</b>	<b>3,000,000</b>	<b>*</b>

\* Upon completion of the payments and share issuances, the Company and Go Metals 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 Metals, 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% that diluted party's interest will be cancelled, and the Joint Venture will terminate.

The Wels property is subject to 3% net smelter return ("NSR") governed by a 2011 agreement between Go Metals 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. Pursuant to the option agreement a \$20,000 annual advance royalty was paid in 2020 (2019 - \$20,000).

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

**Wels Property (continued)**

During the year ended December 31, 2019, the Company issued 500,000 common shares at a price of \$0.255 to Go Metals pursuant to the Wels option agreement. The fair value of these common shares was \$127,500 as at the time of their issuance (Note 6). The Company has now satisfied all of the terms of its option agreement with Go Metals and earned a 90% interest in the Wels property.

**Ladue Property**

During the year ended December 31, 2019, the Company staked certain claims in the eastern Moosehorn Range area of the Yukon Territory known as the Ladue property. There was no activity on the property in the 2020 year.

**McArthur Creek Property**

During the year ended December 31, 2019, the Company staked several claims collectively known as the McArthur Creek Property located in Alaska, USA. The Company no longer holds the claims to this property and during the year ended December 31, 2020 wrote the property down to a value of \$Nil.

**GDR Property**

In December 2018, the Company entered into an earn in agreement with Cazador Resources Ltd., Michael Cathro and North Track Exploration, (the "Vendor Syndicate") to acquire up to a 100% interest in the GDR property located in the Yukon Territory.

To earn 100% of the GDR property, the Company must make staged cash and share payments as listed below:

	<b>Cash option payments</b>	<b>Common shares issuance</b>
Upon signing of agreement (December 15, 2018)	\$ 6,000 (paid)	90,000 (issued)
1 <sup>st</sup> anniversary of agreement (December 31, 2019)	12,000 (paid)	180,000 (issued)
2 <sup>nd</sup> anniversary of agreement (December 31, 2020)	24,000	360,000
3 <sup>rd</sup> anniversary of agreement (December 31, 2021)	48,000	570,000
<b>Total</b>	<b>\$ 90,000</b>	<b>1,200,000</b>

On January 21, 2019, the Company issued its first share issuance of the agreement of 90,000 common shares at a price of \$0.245 with a fair value of \$22,050. In addition, the Company completed the first anniversary cash and share issue payments, The Company issued 180,000 common shares at a price of \$0.215 with a fair value of \$38,700 (Note 6).

The Company abandoned the GDR Property Option on December 29, 2020. The Company paid the three vendors \$9,000 in total to cover claims costs. In addition, the Company also granted the three vendors 50,000 shares each for a total of 150,000 shares at a price of \$0.71 with a fair value of \$106,500, this amount is included as an obligation to issue shares at December 31, 2020 (Note 6). The GDR property was written down to a value of \$nil as at December 31, 2020.

**6. Share Capital**

**a) Authorized Share Capital**

At December 31, 2020 and 2019, the authorized share capital comprised an unlimited number of common shares without par value.

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**6. Share Capital** (continued)

**b) Issued Share Capital**

Transactions for the year ended December 31, 2020

On July 3, 2020, the Company issued 480,000 common shares with a fair value of \$244,800 pursuant to the Mojave option agreement (Note 5).

As at December 31, 2020, the Company has an obligation to issue 150,000 common shares with a fair value of \$106,500 in relation to the abandonment of the GDR property (Note 5).

On December 30, 2020, the Company closed a bought deal private placement for gross proceeds of \$7,000,000. The Company issued a total of 12,500,000 common shares at a price of \$0.56 per share. Each unit consisted of one common share of the Company and one half of one common share purchase warrant. Each warrant is exercisable at price of \$0.75 for 24 months. The common share purchase warrants are subject to acceleration at the Company's discretion in the event its common shares trade on the Exchange on a volume weighted average price ("VWAP") basis of \$1.00 or more for a period of 20 consecutive trading days.

In connection with the financing, the Company incurred a cash share issuance costs of \$528,558, of which \$72,304 remains in accounts payable. The Company also issued 728,565 broker compensation options with a fair value of \$326,031 and were included as non cash share issuance costs, of which \$251,568 was allocated to share capital and \$74,463 to reserves. The net proceeds received from 12,500,000 units issued were allocated \$5,401,264 to share capital and \$1,598,736 to reserves based on their relative fair values.

During the year ended December 31, 2020, a total of 7,077,000 common shares were issued on the exercise of warrants for total proceeds of \$2,807,640. In connection with the issuance, a total of \$567,325 was reallocated from reserves to share capital.

During the year ended December 31, 2020, a total of 115,000 common shares were issued on the exercise of options for total proceeds of \$33,000. In connection with the issuance, a total of \$29,308 was reallocated from reserves to share capital.

Transactions for the year ended December 31, 2019

On January 21, 2019, the Company issued 90,000 common shares with a fair value of \$22,050 pursuant to the execution of the GDR property agreement (Note 5).

On February 8, 2019, the Company issued 500,000 common shares at a price of \$0.255 to Go Metals pursuant to the Wels option agreement. The fair value of these common shares was \$127,500 as at the time of their issuance (Note 5).

On August 7, 2019, the Company issued 480,000 common shares with a fair value of \$156,000 pursuant to the Mojave option agreement (Note 5). The Company issued 212,764 common shares at a price of \$0.325 with a fair value of \$69,148 as finders' fees in relation to Mojave option agreement

On August 26, 2019, the Company closed a non-brokered private placement for gross proceeds of \$3,500,000. The Company issued a total of 14,000,000 common shares at a price of \$0.25 per share. Each unit consisted of one common share of the Company and one half of one common share purchase warrant. Each warrant is exercisable at price of \$0.40 for 24 months. The common share purchase warrants are subject to acceleration at the Company's discretion in the event its common shares trade on the TSX Venture Exchange on a volume weighted average price basis of \$0.50 or more for a period of ten consecutive trading days. In connection with the private placement, the Company issued 694,800 common shares as finders' fees. The fair value of the shares issued was \$229,284 using a share price of \$0.33.

In connection with the financing, the Company incurred a cash share issuance costs of \$20,030 and non-cash share issuance costs of \$229,284. The net proceeds received from 14,000,000 units issued were allocated \$2,913,847 to share capital and \$586,153 to reserves based on their relative fair values.

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**6. Share Capital** (continued)

**b) Issued Share Capital** (continued)

Transactions for the year ended December 31, 2019 (continued)

On December 9, 2019, the Company issued 180,000 common shares pursuant to the GDR Property earn in agreement. The fair value of these common shares was \$38,700 as at the time of their issuance (Note 5).

During the year ended December 31, 2019, a total of 4,000,000 common shares were issued on the exercise of warrants for total proceeds of \$400,000. In connection with the issuance, a total of \$112,000 was reallocated from reserves to share capital.

**c) Warrants**

The warrants activity are summarized below:

Details of outstanding warrants are as follows:	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, December 31, 2018	8,098,200	\$ 0.24
Issued – unit warrants	7,000,000	\$ 0.40
Exercised	(4,000,000)	\$ 0.10
Expired	(136,200)	\$ 0.37
Outstanding warrants, December 31, 2019	10,962,000	\$ 0.39
Issued – unit warrants	6,250,000	\$ 0.75
Exercised	(7,077,000)	\$ 0.40
Expired	(3,885,000)	\$ 0.38
Outstanding warrants, December 31, 2020	6,250,000	\$ 0.75

At December 31, 2020, 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)
December 30, 2022	\$0.75	6,250,000	2.00
Weighted average exercise price and remaining contractual life	\$0.75	6,250,000	2.00

On July 23, 2020, the Company accelerated the expiry date of the warrants issued in the August 27, 2019 private placement. Under the terms of the warrant agreement, the Company is permitted to accelerate the expiry date if the common shares of the Company have traded on a stock exchange at a volume weighted average price of \$0.50 or higher for a period of 10 consecutive trading days. The acceleration event occurred as of July 23, 2020. Accordingly, the Company chose to accelerate the expiry date of the warrants to August 22, 2020.

On June 10, 2019, the Company extended the term of 3,962,000 common share purchase warrants originally set to expire on June 12, 2019 to June 12, 2020. There was no financial statement impact on the value of these warrants as they were issued in connection with a private placement and were not compensatory.

**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

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**6. Share Capital** (continued)

**d) Options** (continued)

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.

During the year ended December 31, 2020 the company granted a total of 800,000 stock options.

During the year ended December 31, 2019 the company granted a total of 2,400,000 stock options.

The changes in stock options issued are as follows:

	Number of stock options	Weighted Average Exercise Price
Outstanding, December 31, 2018	1,230,000	\$0.30
Granted	2,400,000	\$0.27
Cancelled	(180,000)	\$0.30
Outstanding December 31, 2019	3,450,000	\$0.28
Exercised	(115,000)	\$0.29
Granted	1,528,565	\$0.55
Outstanding December 31, 2020	4,863,565	\$0.36

Share-based compensation relating to options vested during the year ended December 31, 2020 using the Black-Scholes option pricing model was \$351,808 (2019: \$467,784), which was recorded as reserves on the statements of financial position and as share-based compensation expense on the statement of loss and comprehensive loss.

The estimated grant date fair value of the options granted during 2019 and 2020 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2019	December 31, 2020	Broker compensation options (Note 6b)
Number of options granted	2,400,000	800,000	728,565
Risk-free interest rate	1.65%	0.35% - 1.33%	0.20%
Expected annual volatility	98%	90% - 122%	121%
Expected life	5 years	5 years	2 years
Expected dividend yield	0%	0%	0%
Grant date fair value per option	\$0.19	0.16 - 0.59	0.45
Share price at grant date	\$0.27	0.23 - 0.71	0.69

As at December 31, 2020, 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	935,000	935,000	\$0.30	1.33
June 12, 2022	50,000	50,000	\$0.36	1.45
June 3, 2024	150,000	150,000	\$0.22	3.42
October 30, 2024	2,200,000	2,200,000	\$0.27	3.83
February 20, 2025	200,000	200,000	\$0.23	4.16
July 2, 2025	150,000	150,000	\$0.42	4.50
September 28, 2025	450,000	450,000	\$0.71	4.75
December 30, 2022	728,565	728,565	\$0.56	2.00
	4,863,565	4,863,565	\$0.36	3.15

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**7. 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.

The fair value of cash and cash equivalents, amounts receivable 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 cash equivalents and amounts receivable.

Cash and cash equivalents are 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.. All equity instruments were sold during the year.

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 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. A 10% fluctuation in the US\$ against the Canadian dollar would affect profit or loss by approximately \$12,800 (2019 - \$3,000).

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**7. Financial Instruments (continued)**

**e) Price risk**

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on profit or loss and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of resources, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**8. 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.

There were no changes in the Company's approach to capital management during the year ended December 31, 2020. The Company is not subject to any externally imposed capital requirements.

**9. CEBA loan**

In June 2020, the Company secured a \$40,000 interest-free operating line of credit after applying for the government-sponsored Canada Emergency Business Account ("CEBA") under the Government of Canada COVID-19 relief program.

Terms of the CEBA agreement:

- i. The CEBA funds are intended for non-deferrable operating expenses, including but not limited to payroll, rent and insurance,
- ii. If there is a balance outstanding after December 31, 2020, the remaining outstanding amount will be converted into a 2-year interest-free term loan effective January 1st, 2021,
- iii. If \$30,000 is repaid by December 31, 2022, \$10,000 of the operating line will be forgiven,
- iv. On December 31, 2022, the Company may choose to exercise an option to extend the term loan for another 3 years at the rate of 5% per annum on any balance remaining.

The balance at December 31, 2020 was \$40,000 (2019: \$nil).

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**10. 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. Total key management compensation are as follows:

	Year ended December 31, 2020	Year ended December 31, 2019
Exploration and evaluation assets	\$ 210,217	\$ 38,840
Personnel	288,806	246,850
Share-based compensation	235,566	437,466
<b>Total</b>	<b>\$ 734,589</b>	<b>\$ 723,156</b>

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

	Year ended December 31, 2020	Year ended December 31, 2019
Office rent *	\$ 28,257	\$ 25,980
Marketing and design *	23,405	12,000
<b>Total</b>	<b>\$ 51,662</b>	<b>\$ 37,980</b>

(\*) Cost recovery payments made to a company related to key management.

The balance payable to related parties at December 31, 2020 was \$1,479 (December 31, 2019 - \$4,002). 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.

**11. Income Taxes**

**Current Income Taxes**

A reconciliation of income taxes at statutory rates is as follows:

	2020	2019
Loss for the year	\$ (1,796,508)	\$ (1,031,919)
A reconciliation of income taxes at Canadian statutory rate of:	27.00%	27.00%
Expected income tax recovery	(485,000)	(279,000)
Change in statutory rate and other	52,000	-
Permanent and other differences	108,000	129,000
Impact of flow-through shares	-	-
Share issue costs	(143,000)	(5,000)
Adjustment to prior years provision versus statutory returns	(55,000)	(26,000)
Change in unrecognized deductible differences	523,000	181,000
<b>Income tax expense (recovery)</b>	<b>\$ -</b>	<b>\$ -</b>

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**11. Income Taxes** (continued)

At December 31, 2020, the Company had estimated net operating losses carried forward of approximately \$6,473,000 in Canada (2019 - \$5,245,000) (expiring in 2031 to 2039) available to reduce future taxable income.

In addition to its loss carry-forwards, the Company has deductible temporary differences of approximately \$7,420,000 (2019 - \$6,782,000) relating primarily to exploration and evaluation costs, available to reduce future taxable income. Tax attributes are subject to review and potential adjustment by tax authorities.

**12. Commitments**

a) Lease

The Company entered into a lease agreement with a company related to key management 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:

<b>2021</b>	<b>\$8,660</b>
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**13. Segment Information**

The Company operates in one reportable segment, being the acquisition, exploration and evaluation of mineral resources. The Company's and exploration and evaluation assets totalling \$7,772,113, of which \$3,059,429 (2019 - \$3,156,039) are located in Canada and \$4,712,684 (2019 - \$969,213) are located in the United States.

**14. Subsequent Event**

The Company had an obligation to issue 150,000 common shares as at December 31, 2020. These shares were issued subsequent to year end and had a fair market value of \$106,500.