

Q-GOLD RESOURCES LTD.

Consolidated Annual Financial Statements

December 31, 2016 and 2015

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Q-Gold Resources Ltd.

We have audited the accompanying consolidated financial statements of Q-Gold Resources Ltd., which comprise the consolidated statement of financial position as at December 31, 2016 and December 31, 2015 and the consolidated statements of comprehensive loss, consolidated statement of changes in equity and consolidated statement of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, 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.

Auditor's Responsibility

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

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

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

(continues)

Independent Auditor's Report to the Shareholders of Q-Gold Resources Ltd. *(continued)*

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Q-Gold Resources Ltd. as at December 31, 2016 and December 31, 2015 and its financial performance and its cash flow for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which describes the conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter

The 2015 comparative figures have been restated to reflect an accounting error in the 2014 consolidated financial statements as described in Note 2 in the consolidated financial statements.

Calgary, Alberta
May 1, 2017

A handwritten signature in cursive script that reads "Calvista LLP".

Chartered Professional Accountants

MANAGEMENT’S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The consolidated financial statements of Q-Gold Resources Ltd. have been prepared by management in accordance with International Financial Reporting Standards (“IFRS”).

Management maintains systems of internal control designed to provide reasonable assurance that the assets are safeguarded and financial information is accurate and reliable. All transactions are authorized and duly recorded, and financial records are properly maintained to facilitate financial statements in a timely manner. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors has reviewed the financial statements with management and the external auditors. Calvista LLP, an independent firm of chartered accountants, appointed as external auditors by the shareholders, have audited the consolidated financial statements and their report is included herein.

“J. Bruce Carruthers II”

J. Bruce Carruthers II
Chief Executive Officer

“Eric A. Gavin”

Eric A. Gavin
Chief Financial Officer

May 1, 2017

Q-GOLD RESOURCES LTD.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	December 31, 2016	December 31, 2015
	(restated-note 2)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 4,477	\$ 58,158
Accounts receivable	2,680	3,115
Prepaid expenses	-	-
	<u>7,157</u>	<u>61,273</u>
Property Plant and Equipment (Note 6)	1,666	2,657
	<u>\$ 8,823</u>	<u>\$ 63,930</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued liabilities (Note 4)	\$ 334,926	\$ 301,647
Share subscriptions payable (Note 4)	18,500	6,000
Promissory notes payable (Note 7)	186,778	95,320
	<u>540,204</u>	<u>402,967</u>
Long-term Liabilities		
Long-term portion of notes payable (Note 7)	-	93,420
	<u>540,204</u>	<u>496,387</u>
Total Liabilities	540,204	496,387
Share capital (Issued 25,473,119 shares) (Note 8)	15,587,631	15,201,831
Reserve for warrants (Note 8)	1,030,238	1,030,238
Reserve for share based payments (Note 8)	1,848,908	1,781,028
Deficit	<u>(18,998,158)</u>	<u>(18,445,554)</u>
	<u>(531,381)</u>	<u>(432,457)</u>
	<u>\$ 8,823</u>	<u>\$ 63,930</u>

APPROVED ON BEHALF OF THE BOARD:

"Randy Bell"
Randy Bell, Director

"J. Bruce Carruthers II"
J. Bruce Carruthers II, Director

Q-GOLD RESOURCES LTD.

CONSOLIDATED STATEMENT OF COMPREHENSIVE LOSS

	Twelve Months Ended December 31,	
	2016	2015
	(restated note-2)	
REVENUE		
Interest income	\$ 36	\$ 42
Other income	-	-
	<u>36</u>	<u>42</u>
EXPENSE		
Accounting	13,229	10,364
Amortization	991	5,260
Arizona mineral exploration properties (Note 5)	330,295	32,481
Compliance agency fees	14,782	20,697
Consultants	-	10,909
Interest	26,862	29,642
Legal fees	3,557	2,210
Office (Note 4)	65,670	90,838
Ontario mineral exploration properties (Note 5)	20,757	17,884
Promotion and investor relations	9,485	473
Share based compensation (Note 8)	67,880	24,827
Taxes	537	212
Travel	1,270	2,433
	<u>555,315</u>	<u>248,230</u>
NET LOSS FROM OPERATIONS	(555,279)	(248,188)
OTHER INCOME		
Foreign exchange gain	-	15,729
Capital gain on sale of assets	-	36,887
	<u>-</u>	<u>52,616</u>
COMPREHENSIVE LOSS FOR THE YEAR	(555,279)	(195,572)
Foreign exchange gain (loss)	2,675	(2,805)
	<u>(552,604)</u>	<u>(198,377)</u>
DEFICIT, BEGINNING OF YEAR	(18,445,555)	(18,247,178)
DEFICIT, END OF YEAR	<u>\$ (18,998,159)</u>	<u>\$ (18,445,555)</u>
Basic loss per share	\$ (0.03)	\$ (0.01)
Weighted average number of shares	21,966,233	15,180,811

The accompanying notes are an integral part of the consolidated financial statements

Q-GOLD RESOURCES LTD.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	SHARE CAPITAL		RESERVES		ACCUMULATED DEFICIT (As Restated)	ACCUMULATED OTHER COMPREHENSIVE INCOME	TOTAL
	NUMBER OF SHARES	AMOUNT (\$)	WARRANTS	SHARE BASED PAYMENTS			
Balance at January 1, 2015	14,673,119	\$ 15,061,799	\$ 1,030,238	\$ 1,756,201	\$ (18,330,788)	\$ -	\$ (482,550)
Prior period adjustment (note-2)	-	-	-	-	83,610	-	83,610
Balance at January 1, 2015 as restated	14,673,119	15,061,799	1,030,238	1,756,201	(18,247,178)	-	(398,940)
Shares issued during the year	2,800,000	140,032	-	-	-	-	140,032
Warrants issued during the year	-	-	-	-	-	-	-
Stock based compensation	-	-	-	24,827	-	-	24,827
Share issuance costs	-	-	-	-	-	-	-
Total comprehensive loss for the year	-	-	-	-	(195,571)	(2,805)	(198,376)
Balance at December 31, 2015	17,473,119	15,201,831	1,030,238	1,781,028	(18,442,749)	(2,805)	(432,457)
Shares issued during the year	8,000,000	400,000	-	-	-	-	400,000
Warrants issued during the year	-	-	-	-	-	-	-
Stock based compensation	-	-	-	67,880	-	-	67,880
Share issuance costs	-	(14,200)	-	-	-	-	(14,200)
Total comprehensive loss for the year	-	-	-	-	(555,279)	2,675	(552,604)
Balance at December 31, 2016	25,473,119	\$ 15,587,631	\$ 1,030,238	\$ 1,848,908	\$ (18,998,028)	\$ (130)	\$ (531,381)

The accompanying notes are an integral part of the consolidated financial statements

Q-GOLD RESOURCES LTD.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended December 31,	
	2016	2015
Cash was provided by (used for)		
<i>Operating activities</i>		
Net loss for the year	\$ (552,604)	\$ (198,377)
Adjustments for items not affecting cash		
Amortization of property, plant and equipment	991	5,260
Interest accrued	18,555	22,205
Gain on disposition of assets	-	(36,887)
Share based compensation	67,880	24,827
Unrealized foreign exchange	(2,675)	2,806
Working capital used by operating activities	(467,853)	(180,166)
Changes in non-cash operating working capital (Note 11)	28,372	85,870
Cash used by Operations	(439,481)	(94,296)
<i>Financing activities</i>		
Net proceeds from equity financings (Note 8)	385,800	96,367
	385,800	96,367
Change in cash (Decrease)	(53,681)	2,071
Cash, beginning of year	58,158	56,087
Cash, end of year	\$ 4,477	\$ 58,158
Supplemental Disclosure		
Taxes paid	\$ -	\$ -
Interest paid	\$ 7,272	\$ 29,642

The accompanying notes are an integral part of the consolidated financial statements

December 31, 2016

1. CORPORATE INFORMATION

Q-Gold Resources Ltd. ("Q-Gold" or the "Company") was originally incorporated under the name Solana Petroleum Corp. under the Business Corporations Act (Alberta) on March 25, 1998. The private company restrictions were removed by Certificate of Amendment dated April 6, 1998. As part of its restructuring, Q-Gold changed its name on January 21, 2004 to Q-Gold Resources Ltd. The Company continued into British Columbia from the jurisdiction of Alberta, effective December 30, 2011. The Company's registered office is located at 700 - 401 West Georgia Street, Vancouver, British Columbia, CANADA, V6B 5A1, and its records office is located c/o Mineral Creek Resources Inc., 809 West Riordan Road, Suite 100-391, Flagstaff, Arizona, USA, 86001.

Q-Gold is a mineral exploration company focused on exploring and developing mineral properties in Canada and the United States. Q-Gold is in the process of exploring its properties and has not yet identified a commercial resource. The recoverability of costs incurred on properties is dependent upon the discovery of an economically recoverable resource and Q-Gold obtaining the necessary financing to complete exploration, development and construction of processing facilities, obtaining government approvals and attaining future profitable production of the mineral resources.

2. BASIS OF PRESENTATION

Statement of compliance

The consolidated financial statements have been prepared by management and reported in Canadian dollars in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"). The policies set out below were consistently applied to all the periods presented unless otherwise noted.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on May 1, 2017.

Going Concern

These consolidated financial statements do not include any adjustments to the recoverability of assets and classification of liabilities that might be necessary should Q-Gold be unable to continue as a going concern. Several adverse conditions cast substantial doubt on the validity of this assumption. As at December 31, 2016, Q-Gold has a working capital deficit of \$533,047 (December 31, 2015 - \$ 341,694), and a retained deficit of \$18,998,158 (December 31, 2015 - \$18,445,554). The continuation of Q-Gold as a going concern is dependent upon the ability of Q-Gold to obtain necessary equity financing to continue operations and to determine the existence, discovery and successful exploitation of economically recoverable reserves in its mineral properties, confirmation of Q-Gold's interests in the underlying properties and the attainment of profitable operations or realize proceeds from their sale. Q-Gold may periodically have to raise additional funds to fund projects and continue operations and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future. Management believes Q-Gold will obtain the funding required to maintain current levels of operations and continue as a going concern for the following year.

December 31, 2016

2. BASIS OF PRESENTATION (continued)

Functional and presentation currency

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

Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments and share based payment transactions that are measured at fair value.

Use of estimates

The preparation of financial statements, in accordance with IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from estimates.

Significant accounts that require estimates as the basis for determining the stated amounts include equipment and amounts recorded for amortization, impairment of mineral properties, share based compensation, fair value of brokers warrants, valuation allowance against future income tax assets and foreign currency transactions.

Prior period adjustment

During 2014 the Company entered into a settlement agreement whereby they issued a promissory note in the sum of \$100,000 in full and satisfaction of the current debt which resulted in the reduction of the debt of \$83,610. Subsequent to signing the settlement agreement the Company did not record the debt reduction in the accounting records until 2016 and has recorded it as a prior period adjustment.

The effects of the adjustment on the 2015 comparative balances are a \$83,610 reduction of the deficit, a reduction in accounts payable of \$161,610 and an increase in promissory notes payable of \$78,000. There were no changes to income taxes or the loss per share.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by the Company's entities.

December 31, 2016

a) Consolidation

These consolidated financial statements include the accounts of the Q-Gold Resources Ltd. and its wholly owned subsidiaries, Q-Gold (Ontario) Ltd., and Mineral Creek Resources Inc.

Q-Gold (Ontario) Ltd. was incorporated for the purpose of holding title to Q-Gold's mineral properties in Ontario. Mineral Creek Resources Inc. was incorporated for the purpose of holding title to Q-Gold's mineral properties in Arizona.

b) Equipment

Equipment is recorded at cost and is amortized over its estimated useful life using the declining balance method on a quarterly basis using the following annual rates:

Automotive	30%
Computer equipment	30%
Field equipment	30%
Office equipment	30%

Amortization is calculated on additions in the quarter that they were purchased.

c) Mineral properties

Exploration costs and mineral properties maintenance costs incurred to the date of establishing that a property has reserves, which have the potential of being economically recoverable, are charged against earnings. Further costs are deferred once economically recoverable reserves have been determined and, upon reaching commercial production, amortized over periods not exceeding the life of the producing mine and property. Properties acquired under joint venture agreement are charged against earnings.

Properties that are sold under joint venture agreement are a reduction of costs incurred on properties.

d) Asset retirement obligation

Q-Gold recognizes an estimate of the liability associated with an asset retirement obligation (ARO) in the consolidated financial statements at the time the liability is incurred. The estimated fair value of the ARO is recorded as a long-term liability, with a corresponding increase in the carrying amount of the related asset. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. The ARO can also increase or decrease due to changes in the estimates of timing of cash flows or changes in the original estimated undiscounted cost. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded. As at December 31, 2016, Q-Gold has determined that it has no material AROs.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Income taxes

Income tax expense is comprised of current and deferred tax. Income tax expense is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized on the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on the initial recognition of assets or liabilities in a transaction that is not a business combination. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

f) Flow-through shares

The resource expenditure deductions for income tax purposes related to Q-Gold's Canadian exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with Canadian tax legislation. Under IFRS, the amount initially recorded in share capital is limited to the amount of common shares that would have been issued on that date and the difference between the actual proceeds and the amount recorded in share capital is set up as a deferred price premium on flow-through shares. When the expenditures are incurred, the related deferred price premium on flow-through shares is reversed and the related tax affect is recorded to the future tax liability. The difference between the deferred tax benefits and the original liability recorded is recognized as a deferred tax expense in the consolidated statement of comprehensive loss.

g) Foreign currency translation

The reporting currency of Q-Gold is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

- (i) Monetary assets and liabilities, at the exchange rate in effect at the balance sheet date;
- (ii) Non-monetary assets, at historical exchange rates; and
- (iii) Revenue and expenses, at the rate of exchange on the date of the transaction.

Gains and losses arising from the translation of foreign currency are included in net loss for the year.

h) Loss per share

Basic loss per share is calculated by dividing net loss available to the shareholders by the weighted average number of common shares outstanding during the year. Diluted loss per share is calculated to reflect the dilutive effect of exercising outstanding stock options by application of the treasury stock method.

i) Share-based compensation

Q-Gold accounts for share based compensation using the fair value based method with respect to all share based payments to directors, employees and non-employees, including awards that are direct awards of stock and call for settlement in cash or other assets, or stock appreciation rights that call for settlement by the issuance of equity instruments. Under this method, share based payments are recorded as an expense over the vesting period or when the awards or rights are granted with a corresponding increase to reserve for share based payments. When stock options are exercised, the corresponding fair value is transferred from reserve for share based payment to share capital.

j) Warrants

Q-Gold has adopted the residual value approach in accounting for the value assigned to the common shares and the warrants, which it has made available in a number of private placement financings.

k) Financial instruments

(i) *Non-derivative financial assets*

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit and loss (FVTPL)) are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any

December 31, 2016

directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables comprise accounts receivable.

Cash and cash equivalents are classified as FVTPL and are accounted for at fair value. Cash equivalents are comprised of cash balances and are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

(ii) *Non-derivative financial liabilities*

The Company has the following non-derivative financial liabilities: accounts payable, share subscriptions payable and notes payable. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

I) Impairment

For the purposes of testing impairment, assets are grouped at the lowest levels for which there are largely independent cash in-flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at the cash-generating unit level.

Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of the fair value less costs to sell and value-in-use. To determine the value-in-use, management estimates expected future cash flows from each cash-generating unit and determines a suitable interest rate in order to calculate the present value of the cash flows. Discount factors are determined individually for each cash-generating unit and reflect their respective risk profiles as assessed by management.

(i) *Financial assets*

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of 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 original effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, this reversal is recognized in profit or loss.

(ii) *Non-financial assets*

Non-financial assets are evaluated at least annually by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is estimated.

m) Revenue recognition

Revenue from interest income is recognized when received. Although the Company does not currently have any revenues from the production and sale of precious metals, it has adopted the policy that revenues will be recognized when title passes to the buyer, which will generally coincide with the delivery and acceptance of goods and the ability to collect is reasonably assured.

n) Accounting standards issued but not yet applied

The Company has assessed the impact of the following standards and amendments and has determined that the adoption of the standards is not expected to have any material impact to the Company. The standards are to be adopted by required compliance date unless otherwise noted with earlier adoption permitted. A brief description of each new standard is listed below:

Revenue from Contracts with Customers:

In May 2014, the IASB issued IFRS 15 *Revenue from Contracts with Customers*. It replaces the existing revenue recognition guidance and provides a single, principles based five-step model to be applied to all contracts with customers. Retrospective application of this standard is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of this standard.

Financial Instruments: Recognition and Measurement:

In July 2014, IFRS 9 *Financial Instruments* was issued as a complete standard, including the requirements previously issued related to classification and measurement of financial assets and liabilities, and additional amendments to introduce a new expected loss impairment model for financial assets including credit losses. Retrospective application of this standard with certain exemptions is effective for fiscal years beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of this standard.

December 31, 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases:

In January 2016, the IASB has issued a new standard IFRS 16 "Leases" , which replaces IAS 17, "Leases". For lessees applying IFRS 16, a single recognition and measurement model for leases would apply, with required recognition of assets and liabilities for most leases. The standard will come into effect for annual periods beginning on or after January 1, 2019, with earlier adoption permitted if the entity is also applying IFRS 15 "Revenue from Contracts with Customers". The Company is currently evaluating the impact of this standard.

4. RELATED PARTY TRANSACTIONS

During the year ended December 31, 2016, pursuant to compensation agreements with related parties, Q-Gold paid the following fees:

- a) Q-Gold paid its Chief Executive Officer USD \$ 12,000 (2015 – US\$ 12,000), all of which was deferred.
- b) Q-Gold paid its Chief Financial Officer USD \$ 30,000 (2015 - US\$ 30,000), all of which was deferred.

These agreements were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at December 31, 2016, \$ 284,280 (December 31, 2015 – \$ 272,456) which include interest of \$60,038 (2015-\$42,972), promissory notes of \$108,778 (2015-\$110,740), subscriptions receivable of \$18,500 (2015 - \$6,000) and accounts payable of \$96,964 (2015-\$112,744) in the total liabilities are due to officers, directors and family members of directors of the Company.

5. MINERAL PROPERTIES AND COMMITMENTS

a) Arizona Mineral Properties

The Company currently holds 13 mineral claims administered by the United States Department of the Interior, Bureau of Land Management in Yavapai County, near Crown King, Arizona. The Company currently holds 8 BLM mineral claims and an option on the 5 Peck and Oriental silver mines.

b) Ontario Mineral Properties

On September 24, 2009, Q-Gold entered into an option and joint venture agreement with Upper Canyon Minerals ("UCM"). This joint venture was terminated on December 9, 2010. Pursuant to the provisions of the termination agreement, Q-Gold granted UCM a 7% "carried interest" to production. Upon presentation of a feasibility study by Q-Gold, UCM will have the option to obtain a 7% participating interest in any development project on the Nipigon and Golden Star tracts, formerly contained in the joint venture. Thus, Q-Gold's current interest in the two properties is 93%.

**Q-GOLD RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2016

6. PROPERTY PLANT AND EQUIPMENT

	<u>Automotive</u>	<u>Computer equipment</u>	<u>Field equipment</u>	<u>Office equipment</u>	<u>Total</u>
Cost					
January 1, 2015	\$ 14,500	\$ 9,101	\$ 81,527	\$ 5,167	\$110,295.00
Additions (disposal) in 2015	(2,727)	--	(7,699)	26	(10,400)
Balance, December 31, 2015	11,773	9,101	73,828	5,193	99,895
Net additions (disposal) in 2016	--	--	--	--	--
Balance, December 31, 2016	11,773	9,101	73,828	5,193	99,895
Accumulated amortization					
January 1, 2015	10,889	9,101	66,902	5,086	91,978
Amortization in 2015	884	--	4,356	20	5,260
Balance, December 31, 2015	11,773	9,101	71,258	5,106	97,238
Amortization in 2016	--	--	975	16	991
Balance, December 31, 2016	11,773	9,101	72,233	5,122	98,229
Net book value, December 31, 2015	--	--	2,570	87	2,657
Net book value, December 31, 2016	\$ --	\$ --	\$ 1,595	\$ 71	\$ 1,666

7. PROMISSORY NOTES PAYABLE

	<u>2016</u>	<u>2015</u>
2012 Promissory note bearing interest at 20% is unsecured and due December 31, 2017	\$20,000	\$20,000
2012 Promissory note bearing interest at 5% is unsecured and due December 31, 2016	25,000	25,000
2012 Promissory notes of USD \$47,500 US, bearing interest at 20% are unsecured and due December 31, 2017	63,778	65,740
2014 Promissory note bearing interest at prime plus 2.5% is unsecured and was due August 29, 2014	78,000	78,000
Total	\$186,778	\$188,740

**Q-GOLD RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2016

8. SHARE CAPITAL

a) Authorized

Unlimited number of first preferred shares
 Unlimited number of second preferred shares
 Unlimited number of common shares

The first and second preferred shares may each be issued in one or more series and the directors are authorized to fix, before issuance, the number of shares in and the designation, rights, privileges, restrictions and conditions attaching to the shares of each series.

b) Issued and outstanding common shares

	Number of Shares	Amount \$
Balance as at January 1, 2015	14,673,119	15,061,799
Shares issued during 2015	2,800,000	140,032
Share issue costs	--	--
Balance as at December 31, 2015	17,473,119	15,201,831
Shares issued during the year	8,000,000	400,000
Share issue costs	--	(14,200)
Balance as at December 31, 2016	25,473,119	15,587,631

On October 26, 2015, the Company announced it had completed a non-brokered private placement for gross proceeds of \$140,000. Pursuant to the terms of the private placement, the Company received subscriptions for 2,800,000 units at five cents each ("Units"). Each Unit consisting of one common share and one common share purchase warrant of the Company, entitling the holder to acquire one common share of the Company at a price of \$0.10 within 18 months of issuance.

On June 9, 2016, the Company announced it had completed a non-brokered private placement for gross proceeds of \$400,000. Pursuant to the terms of the private placement, the Company received subscriptions for 8,000,000 units at five cents each ("Units"). Each Unit consisting of one common share and one common share purchase warrant of the Company, entitling the holder to acquire one common share of the Company at a price of \$0.07 on or before December 9, 2017.

**Q-GOLD RESOURCES LTD.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2016

December 31, 2016

8. SHARE CAPITAL (continued)

c) Stock options

Q-Gold has established a stock option plan for the benefit of directors, officers, employees and consultants of Q-Gold. The exercise price of each option equals the market price of Q-Gold's stock as calculated on the date of the grant. The options can be granted for a maximum term of five years and certain options to employees and consultants vest over periods of time, determined by the board of directors. On December 18, 2015, the Board of Directors granted options allowing three Directors, one Officer and one Consultant to the Company to acquire a total of 1,250,000 common shares at an exercise price of \$0.10, within 5 years. On June 9, 2016, the Board of Directors granted options allowing three Directors, one Officer and one Consultant to the Company to acquire a total of 1,000,000 common shares at an exercise price of \$0.10, within 5 years. The stock based compensation recognized under the fair value method for the options granted in 2015 was \$24,827 and \$67,880 for those issued in 2016. As at December 31, 2016, 2,250,000 options were outstanding (2015 – 1,251,875) under the following terms, which include an expected volatility rate of 130% and a risk free interest rate of 3%:

Number of Shares	Option price \$	Grant date	Expiry date
1,250,000	0.10	December 18, 2015	December 18, 2020
1,000,000	0.10	June 9, 2016	June 9, 2021

Q-Gold uses the Black-Scholes valuation of stock options. The weighted average contractual years remaining on these options, as of December 31, 2016, is 5 years (December 31, 2015 – 4 years).

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8. SHARE CAPITAL (continued)

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance January 1, 2015	31,875	\$4.66
Options Granted – 2015	1,250,000	0.10
Options Exercised – 2015	--	--
Options Cancelled – 2015	--	--
Options Expired – 2015	(30,000)	4.88
Balance December 31, 2015	1,251,875	\$0.11
Options Granted – 2016	1,000,000	0.10
Options Exercised – 2016	--	--
Options Cancelled – 2016	--	--
Options Expired – 2016	(1,875)	3.84
Balance December 31, 2016	<u>2,250,000</u>	<u>\$0.10</u>

d) Warrants

Warrants are issued within units of private placements as an incentive to the investor. Using the residual value method, no value was allocated to these warrants within the units. As a result of financings completed in 2015 and 2016, there are warrants outstanding as of December 31, 2016, allowing the purchase of an additional 10,800,000 common shares of Q-Gold under the following terms:

<u>Number of Warrants</u>	<u>Exercise Price \$</u>	<u>Expiry date</u>
2,800,000	0.10	October 26, 2017
8,000,000	0.10	December 9, 2017

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8. SHARE CAPITAL (continued)

The following is a continuity schedule of warrants from January 1, 2015 to December 31, 2016:

	Number of Warrants
Balance January 1, 2015	6,894,355
Granted – 2015	2,800,000
Expired – 2015	(347,221)
Balance December 31, 2015	9,347,134
Granted – 2016	8,000,000
Expired – 2016	(6,547,134)
Balance December 31, 2016	10,800,000

e) Share based payments

The following is a continuity of the share based payments from January 1, 2015 to December 31, 2016:

Balance January 1, 2015	\$ 1,756,201
Stock-based compensation – 2015	24,827
Exercise of options – 2015	--
Balance December 31, 2015	1,781,028
Stock-based compensation – 2016	67,880
Exercise of options – 2016	--
Balance December 31, 2016	\$ 1,848,908

9. INCOME TAXES

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

	2016	2015
Loss before income tax	\$(552,604)	\$ (195,571)
Combined federal and provincial statutory tax rates	26.0%	26.0%
Income tax recovery at statutory tax rates	(143,677)	(50,848)

**Q-GOLD RESOURCES LTD.
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Adjustments resulting from:		
Non-deductible expenses	321	4,741
Share issue costs	(4,379)	(6,455)
Share based compensation	17,649	10,131
Expiry of prior year losses	--	54,153
Unrecognized deferred tax asset	<u>130,086</u>	<u>(11,722)</u>
 Total income tax recovery	 \$ -	 \$ -

The significant components of Q-Gold's deferred income tax assets are as follows:

	<u>2016</u>	<u>2015</u>
Non-capital losses carried forward	\$ 1,433,775	\$ 1,302,790
Share issue costs	3,733	5,158
Property, plant and equipment	<u>3,221</u>	<u>2,695</u>
Total future tax assets	1,440,729	1,310,643
Less: unrecognized deferred tax asset	<u>(1,440,729)</u>	<u>(1,310,643)</u>
 Net deferred tax asset	 <u>\$ -</u>	 <u>\$ -</u>

The Company also has approximately \$2,962,000 in capital losses available to be offset against future capital gains. However it is uncertain if the Company will be able to recognize this asset.

For income tax purposes, Q-Gold has Canadian non-capital tax losses carried forward of approximately \$3,087,240 which can be used to reduce future years' taxable incomes. The losses expire as follows:

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2016

9. DEFERRED INCOME TAXES (continued)

2026	\$	224,697
2027		319,374
2028		328,864
2029		70,911
2030		478,075
2031		581,420
2032		328,211
2033		260,913
2034		217,674
2035		151,932
2036		125,169
		<hr/>
	\$	<u>3,087,240</u>

December 31, 2016

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS

Q-Gold is exposed to a number of different risks arising from normal course business exposures, as well as Q-Gold's use of financial instruments. These risk factors include liquidity risk and credit risk.

a) Liquidity Risk

Liquidity risk is the risk that Q-Gold will encounter difficulty in meeting its obligations associated with financial liabilities. Q-Gold does not have sufficient working capital to maintain its operations for the next 12 months. Q-Gold may also issue debt, equity, sell assets or use some form of venture financing to access additional capital. As Q-Gold is in the development stage of growth it has no production upon which it could rely on to fund its operations for the exploration of its opportunities.

Financial liabilities consist of accounts payable which are current and will be settled within one year. As of December 31, 2016, \$287,758 (2015-\$ 257,167) in accounts payable were aged over ninety days, with \$19,310 (2015-\$Nil) being aged between 31-90 days and the remaining \$27,858 (2015 -\$44,480) being aged less than 30 days.

b) Credit Risk

Credit risk is the risk that counterparty will fail to pay amounts owing or fail to perform an obligation causing a financial loss. Not having a producing asset generating sales and accounts receivable, Q-Gold's credit risk is considered limited as there is no exposure to a single customer or counterparty. Q-Gold continues to monitor and is subject to, normal mining industry credit risks.

c) Market Risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits while maximizing returns. The Company recognizes that external factors, which it cannot control such as financial market instability and commodity prices, can adversely affect its ability to raise the necessary capital to maintain ongoing operations.

d) Currency Risk

Q-Gold's operations are in Canada and the United States. The international nature of Q-Gold's operations results in foreign exchange risk as transactions are denominated in foreign currency.

The operating results and the financial position of Q-Gold are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reported results of Q-Gold and may also affect the value of Q-Gold's assets and liabilities.

Q-Gold has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

December 31, 2016

9. FINANCIAL INSTRUMENTS AND FINANCIAL RISK FACTORS (continued)

e) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The risk that Q-Gold will realize a loss as a result of a decline in the fair value of cash is limited because of their short-term investment nature. A variable rate of interest is earned on cash; changes in market interest rates at the year-end would not have a material impact on Q-Gold's consolidated financial statements.

10. CAPITAL DISCLOSURES

Q-Gold's capital structure consists of shareholders' equity and debt. The primary capital management objectives are to maintain a flexible capital structure which optimizes the costs of capital at acceptable risk to facilitate ongoing development and to maintain a strong capital base so as to maintain investor confidence and provide an appropriate return to its shareholders. Q-Gold has the ability to adjust its capital structure by issuing new equity and adjusting its mineral exploration program to the extent the mineral exploration expenditures are not committed to.

As at December 31, 2016, Q-Gold had working capital deficit of \$ 533,046 (December 31, 2015 - \$341,695) and long term debt of \$Nil (December 31, 2015 - \$ 93,420). Q-Gold currently has no external restrictions.

11. CHANGE IN NON OPERATING WORKING CAPITAL

Change in non-operating working capital consists of the following:

	December 31 2016	December 31 2015
Accounts receivable	\$ 435	\$ 2,350
Prepaid expenses	-0-	4,864
Accounts payable	15,437	78,656
Share subscriptions repayable	12,500	-0-
	<u>\$ 28,372</u>	<u>\$ 85,870</u>

**Q-GOLD RESOURCES LTD.
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December 31, 2016

12. SEGMENTED INFORMATION

Q-Gold's operations comprise two reporting operating segments engaged in mineral exploration in Canada and the United States. As the operations comprise two operating segments, amounts disclosed in the consolidated financial statements relating to the loss for the year also represent the consolidated segment amounts.

At December 31, 2016 and 2015, the Company's mineral exploration expenditures and interests were located in:

	December 31, 2016	December 31, 2015
Canada	\$ 20,757	\$ 17,884
United States of America	330,295	32,481
Total	\$351,052	\$50,365

At December 31, 2016, all of Q-Gold's mineral properties are located in Canada and the United States.

13. COMMITMENTS

Q-Gold is required to remit annual claim maintenance payments to the United States Department of the Interior, Bureau of Land Management in the amount of US\$ 1,240 for the eight mineral claims (US\$ 155 per) held by Q-Gold's Arizona subsidiary.

The mining claims held by Q-Gold in the Kenora Mining Division of Ontario require an annual application of assessment work credits. Through application of Q-Gold's "banked" assessment work credits, its mining claims located in the Kenora Mining Division will not require additional assessment work credits until the end of 2017.

15. NON-MONETARY TRANSACTION

On July 2, 2015, the Company sold its remaining capital assets in Ontario to a third party as a partial settlement for outstanding rent fees relating to the Company's Ontario rent for office and storage facilities.