



Q-Gold Resources Ltd.

Consolidated Financial Statements

For the years ended December 31, 2018 and 2017

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of Q-Gold Resources Ltd.

Opinion

We have audited the consolidated financial statements of Q-Gold Resources Ltd. and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of loss and comprehensive loss, consolidated statement changes in shareholders' equity (deficiency) and consolidated statement cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for opinion

We conducted our audit 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. We have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Company for the year ended December 31, 2017, were audited by another auditor who expressed an unmodified opinion on those statements on April 30, 2018.

As part of our audit of the consolidated financial statements of the Company for the year ended December 31, 2018, we also audited the adjustments described in Note 2 that were applied to restate the consolidated financial statements for the year ended December 31, 2017 for the effects of a change in policies. In our opinion, such adjustments are appropriate and have been properly applied. We were not engaged to audit, review, or apply any procedures to the consolidated financial statements of the Company for the year ended December 31, 2017 other than with respect to the adjustments, and accordingly, we do not express any opinion or any other form of assurance on the consolidated financial statements for the year ended December 31, 2017 taken as a whole.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above 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 on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. 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 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 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 judgement 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 risks 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.

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 of the audit resulting in this independent auditor's report is Glen McFarland.

UHY McGovern Hurley LLP



Chartered Professional Accountants
Licensed Public Accountants

Toronto, Ontario
April 12, 2019

Q-Gold Resources Ltd.
Consolidated Statements Of Financial Position

(Expressed in Canadian dollars)

As at	December 31, 2018		(Restated - Note 2)	December 31, 2017
ASSETS				
Current assets				
Cash	\$	454,734	\$	1,469
Amounts receivable (Note 4)		35,780		1,909
Prepaid expenses (Note 5)		6,058		-
Total current assets		496,572		3,378
Non-current assets				
Property, plant and equipment (Note 6)		-		943
Total Assets	\$	496,572	\$	4,321
LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIENCY)				
Current liabilities				
Accounts payable and accrued liabilities (Note 8,11)	\$	76,958	\$	110,543
Total liabilities		76,958		110,543
Shareholders' equity (deficiency)				
Share capital (Note 9)		16,621,121		15,894,482
Warrants (Note 10)		416,730		157,000
Share based payments (Note 10)		368,599		294,249
Deficit		(16,986,836)		(16,451,953)
Total shareholders' equity (deficiency)		419,614		(106,222)
Total Liabilities and Shareholders' Equity (Deficiency)	\$	496,572	\$	4,321

Nature of operations and going concern (Note 1)

Commitments and contingencies (Note 16)

Approved by the Board of Directors on April 12, 2019

"Robert C. Bryce"
 Robert C. Bryce, Director

"Fred Leigh"
 Fred Leigh, Director

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

Q-Gold Resources Ltd.
Consolidated Statements of Loss and Comprehensive Loss

(Expressed in Canadian dollars)

	Years ended December 31,	
	2018	2017
EXPENSES		
Accounting	\$ 25,000	\$ 17,800
Amortization (Note 6)	943	723
Consultants (Note 11)	160,586	54,541
Exploration and evaluation expenditures - Arizona (Note 7)	22,263	156,970
Exploration and evaluation expenditures - Ontario (Note 7)	59,739	15,150
Investor relations and filing fees	37,637	17,762
Legal fees	4,332	4,569
Office expenses	9,519	8,688
Share based payments (Note 10)	133,200	201,542
Travel	139,490	540
Total expenses	\$ 592,709	\$ 478,285
Other income (expenses)		
Interest income	\$ 1,145	\$ -
Interest expense	(836)	(16,307)
Foreign exchange (loss) gain	(1,334)	19,008
Gain on settlement of debt	-	109,352
Total other income (expenses)	(1,025)	112,053
Net loss and comprehensive loss	\$ (593,734)	\$ (366,232)
Loss per share		
- basic and diluted	\$ (0.04)	\$ (0.06)
Weighted average number of shares		
- basic and diluted	14,299,787	6,384,718

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

Q-Gold Resources Ltd.

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)

(Expressed in Canadian dollars)

	SHARE CAPITAL		RESERVES			TOTAL
	NUMBER OF SHARES	AMOUNT (\$) (As Restated)	WARRANTS (As Restated)	SHARE BASED PAYMENTS (As Restated)	DEFICIT (As Restated)	
Balance at December 31, 2016	6,368,209	\$ 15,461,631	\$ 126,000	\$ 92,707	\$ (16,211,719)	\$ (531,381)
Shares issued	3,000,000	600,000	-	-	-	600,000
Warrants issued	-	(157,000)	157,000	-	-	-
Warrants expired unexercised	-	-	(126,000)	-	126,000	-
Share based payments	-	-	-	201,542	-	201,542
Share issuance costs	-	(10,150)	-	-	-	(10,150)
Net loss for the year	-	-	-	-	(366,233)	(366,233)
Balance at December 31, 2017	9,368,209	\$ 15,894,481	\$ 157,000	\$ 294,249	\$ (16,451,952)	\$ (106,222)
Private placement shares issued	10,000,000	1,000,000	-	-	-	1,000,000
Warrants issued	-	(263,320)	263,320	-	-	-
Options expired unexercised	-	-	-	(58,850)	58,850	-
Share and warrant issuance costs	-	(10,040)	(3,590)	-	-	(13,630)
Share based payments	-	-	-	133,200	-	133,200
Net loss for the year	-	-	-	-	(593,734)	(593,734)
Balance at December 31, 2018	19,368,209	\$ 16,621,121	\$ 416,730	\$ 368,599	\$ (16,986,836)	\$ 419,614

Q-Gold Resources Ltd.
Consolidated Statements Of Cash Flow
(Expressed in Canadian dollars)

	Years ended December 31,	
	2018	2017
Cash (used in) provided by:		
Operating activities		
Net loss for the year	\$ (593,734)	\$ (366,232)
Adjustments for items not affecting cash		
Amortization of property, plant and equipment (Note 6)	943	723
Gain on debt settlement	-	(109,352)
Share based payments	133,200	201,542
Unrealized foreign exchange (gain)	(644)	(17,948)
	(460,235)	(291,267)
Changes in non-cash working capital (Note 15)	(72,870)	88,246
Net cash (used in) operating activities	\$ (533,105)	\$ (203,021)
Financing activities		
Proceeds from equity financings (Note 9)	1,000,000	210,163
Share issue costs (Note 9)	(13,630)	(10,150)
Net cash provided by financing activities	\$ 986,370	\$ 200,013
Increase (decrease) in cash during the year	453,265	(3,008)
Cash, beginning of year	1,469	4,477
Cash, end of year	\$ 454,734	\$ 1,469
Supplemental Disclosure		
Interest paid	\$ 836	\$ 63,288
Shares issued for debt settlement (Note 9)	\$ 63,540	\$ 389,837

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

Q-Gold Resources Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN

Q-Gold Resources Ltd. ("Q-Gold" or the "Company") was originally incorporated with 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. Effective October 3, 2018, the Company continued into Ontario from the jurisdiction of British Columbia. The Company's registered office is located at 65 Queen Street West, Suite 815, Toronto, Ontario, M5H 2M5.

Q-Gold is a mineral exploration company focused on exploring its mineral properties and has not yet identified a commercial Mineral 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.

The business of mining and exploring for minerals involves a high degree of risk and there can be no assurance that current operations, including exploration and evaluation programs will result in profitable mining operations. The recoverability of the carrying value of mineral properties and the Company's continued existence is dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, or the ability of the Company to raise additional financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of operations of such properties, these procedures do not guarantee the Company's title. Property title may be subject to government licensing requirements or regulations, social licensing requirements, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company's assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

Going Concern

These consolidated financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations, and do not include any adjustments to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern. Such adjustments could be material.

As at December 31, 2018, Q-Gold has a working capital of \$419,614 (December 31, 2017 – a deficiency of \$107,165), and a deficit of \$16,986,836 (December 31, 2017 - \$16,451,953). The continuation of Q-Gold as a going concern is dependent upon the ability of the Company to obtain the necessary equity financing to continue operations, the successful results of mineral property exploration activities and its ability to attain profitable operations and generate funds therefrom or realize proceeds from their sale. Q-Gold may periodically have to raise additional capital to fund projects and continue operations and while it has been successful in doing so in the past, there can be no assurance the Company 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.

Q-Gold Resources Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements unless otherwise noted below. The accounting policies have been applied consistently by all groups entities.

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"), and International Financial Reporting Interpretations Committee ("IFRIC") interpretations. Except as discussed under changes in accounting policies (Note 2), the Company has consistently applied the accounting policies used in the preparation of these consolidated financial statements throughout all periods presented.

These consolidated financial statements were approved and authorized for issuance by the Board of Directors on April 12, 2019.

Basis of preparation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments, which are stated at their fair values. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

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.

Subsidiaries consist of entities over which the Company is exposed to, or has rights to, variable returns as well as the ability to affect those returns through the power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date control is transferred to the Company and are de-consolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiaries after eliminating inter-entity balances and transactions.

Foreign currency transactions

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The Canadian dollar has been determined as the functional currency of the Company and all subsidiaries and it is the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated and because the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. Foreign currency transactions are translated into the functional currency of the entity in which they occur using the exchange rates prevailing at the dates of transactions. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation of monetary assets and liabilities denominated in currencies other than functional currency at period-end exchange rates are recognized in the consolidated statement of loss.

Q-Gold Resources Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Equipment

Equipment is carried at cost, less accumulated depreciation and impairment losses. Equipment is depreciated at 30% over its estimated useful life using the declining balance method. As at December 31, 2018, all equipment was fully depreciated.

Impairment of non-financial assets

At the end of each reporting period, the Company reviews and evaluates the recoverable amount of its property and equipment and when events or changes in circumstances indicate that the carrying amounts of related assets or groups of assets might not be recoverable.

For the purpose of measuring recoverable amounts, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (being the present value of the expected future cash flows of the relevant asset). Any resulting write-down of the excess of carrying value over the recoverable amount is charged to the consolidated statement of loss.

Exploration and evaluation expenditures

Exploration and evaluation expenditures comprise costs of the initial search for mineral deposits and performing a detailed assessment of deposits that have been identified as having economic potential. Exploration and evaluation costs are expensed as incurred and included in the consolidated statement of loss and until technical feasibility and commercial viability of extraction of reserves are demonstrable. Once a mine development decision has been made by the Company, subsequent expenditures incurred to develop the mine are capitalized to mine development assets. Exploration and evaluation costs include an allocation of administration and salary costs as determined by management.

Financial instruments

Financial assets and liabilities

Accounting policy under IFRS 9 applicable from January 1, 2018

Financial assets

Initial recognition and measurement

Non-derivative financial assets within the scope of IFRS 9 are classified and measured as "financial assets at fair value", as either FVPL or FVOCI, and "financial assets at amortized costs", as appropriate. The Company determines the classification of financial assets at the time of initial recognition based on the Company's business model and the contractual terms of the cash flows.

All financial assets are recognized initially at fair value plus, in the case of financial assets not at FVPL, directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

Q-Gold Resources Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets and liabilities (continued)

Accounting policy under IFRS 9 applicable from January 1, 2018 (continued)

Financial assets (continued)

Subsequent measurement – financial assets at amortized cost

After initial recognition, financial assets measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the Effective Interest Rate (“EIR”) method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in the consolidated statements of loss. The Company’s cash and amounts receivable are recorded at amortized cost.

Subsequent measurement – financial assets at FVPL

Financial assets measured at FVPL include financial assets management intends to sell in the short term and any derivative financial instrument that is not designated as a hedging instrument in a hedge relationship. Financial assets measured at FVPL are carried at fair value in the consolidated statements of financial position with changes in fair value recognized in other income or expense in the consolidated statements of loss.

Subsequent measurement – financial assets at FVOCI

Financial assets measured at FVOCI are non-derivative financial assets that are not held for trading and the Company has made an irrevocable election at the time of initial recognition to measure the assets at FVOCI. The Company does not measure any financial assets at FVOCI.

After initial measurement, investments measured at FVOCI are subsequently measured at fair value with unrealized gains or losses recognized in other comprehensive income or loss in the consolidated statements of comprehensive loss. When the investment is sold, the cumulative gain or loss remains in accumulated other comprehensive income or loss and is not reclassified to profit or loss.

Dividends from such investments are recognized in other income in the consolidated statements of loss when the right to receive payments is established.

Derecognition

A financial asset is derecognized when the contractual rights to the cash flows from the asset expire, or the Company no longer retains substantially all the risks and rewards of ownership.

Impairment of financial assets

The Company’s only financial assets subject to impairment are amounts receivable, which are measured at amortized cost. The Company has elected to apply the simplified approach to impairment as permitted by IFRS 9, which requires the expected lifetime loss to be recognized at the time of initial recognition of the receivable. To measure estimated credit losses, accounts receivable have been grouped based on shared credit risk characteristics, including the number of days past due. An impairment loss is reversed in subsequent periods if the amount of the expected loss decreases and the decrease can be objectively related to an event occurring after the initial impairment was recognized.

Q-Gold Resources Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets and liabilities (continued)

Accounting policy under IFRS 9 applicable from January 1, 2018 (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are measured at amortized cost, unless they are required to be measured at FVPL as is the case for held for trading or derivative instruments, or the Company has opted to measure the financial liability at FVPL. The Company's financial liabilities include accounts payable and accrued liabilities, which are each measured at amortized cost. All financial liabilities are recognized initially at fair value and in the case of long-term debt, net of directly attributable transaction costs.

Subsequent measurement – financial liabilities at amortized cost

After initial recognition, financial liabilities measured at amortized cost are subsequently measured at the end of each reporting period at amortized cost using the EIR method. Amortized cost is calculated by taking into account any discount or premium on acquisition and any fees or costs that are an integral part of the EIR. The EIR amortization is included in the consolidated statement of loss.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires with any associated gain or loss recognized in other income or expense in the consolidated statements of loss.

Accounting policy under IAS 39 applicable prior to January 1, 2018

The accounting policy under IAS 39 for the comparative information presented in respect of financial assets and liabilities is as follows:

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives. The Company determines the classification of its financial assets at initial recognition.

The Company's financial assets include cash and amounts receivable. Initially they are recognized at fair value, and subsequently measured at amortized cost using the effective interest method. Amortized cost approximates fair value due to the short-term maturity of these assets. They are included in current assets, except for maturities greater than twelve months after the year-end.

Regular purchases and sales of financial assets are recognized on the date on which the Company commits to purchase or sell assets.

Financial assets are derecognized when the rights to receive cash flows from investments cease and the Company has transferred substantially all risks and rewards of ownership.

Q-Gold Resources Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets and liabilities (continued)

Accounting policy under IAS 39 applicable prior to January 1, 2018 (continued)

Financial liabilities

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

The Company's financial liabilities include accounts payable and accrued liabilities. Initially they are recognized at fair value, and subsequently measured at amortized cost using the effective interest method. The fair values of accounts payable and accrued liabilities approximate their recorded amounts because of their short-term nature.

Impairment of financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date for impairment if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise or indicators that a debtor or issuer will enter bankruptcy.

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 the receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Cash

Cash comprised of cash on hand and deposits. Deposits are held in Canadian chartered banks or in financial institutions controlled by a Canadian chartered bank.

Prepaid expenses

Prepaid expenses represent payments made or obligations incurred in advance of the receipt of goods or rendering of services. Prepaid expenses are typically included in other current assets on the consolidated statement of financial position.

Q-Gold Resources Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Provisions

General

Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated statement of operations, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas.

The obligation generally arises when the asset is installed or the ground / environment is disturbed at the production location. When the liability is initially recognized, the present value of the estimated cost is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred prior to the production of related ore. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognized in the consolidated statement of loss as a finance cost. Additional disturbances or changes in rehabilitation costs will be recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. For closed sites, changes to estimated costs are recognized immediately in the consolidated statement of loss.

As at December 31, 2018 and 2017, the Company determined that it has no material rehabilitation obligations related to its assets.

Revenue recognition

Revenue from interest income is recognized when received.

Operating segments

The Company has concluded that it has only one material operating segment (the exploration of its North American mineral licences) for financial reporting purposes.

Income taxes

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

Q-Gold Resources Ltd.
Notes to the Consolidated Financial Statements
For the years ended December 31, 2018 and 2017
(Expressed in Canadian dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income taxes (continued)

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

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

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

Loss per share

Basic loss per share is calculated by dividing loss attributable to common shareholders by the weighted average number of common shares outstanding for the year. In the event of the Company reporting net profit, the diluted loss per share will be similar to basic loss per share, except that the denominator will be increased to include the number of additional shares that would have been outstanding if the dilutive potential common shares in connection with the issued share options and warrants had been issued using the treasury stock method. The Company's options and warrants were anti-dilutive for the years ended December 31, 2018 and 2017.

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

The fair value of share-based payments is determined using the Black-Scholes option pricing model. The expense is recognized over the period during which the options vest based on the estimate of equity instruments expected to vest. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital. Unexercised expired stock options are transferred to deficit.

Warrants

Warrants are recognized at fair value on the date of grant and are measured using the Black-Scholes option pricing model. Upon exercise of warrants, consideration paid by the warrant holder together with the amount previously recognized in warrants is recorded as an increase to share capital. Unexercised expired warrants are transferred to deficit.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingencies

In assessing loss contingencies related to legal proceedings that are pending or unasserted claims that may result in such proceedings, the Company and its legal counsel evaluate the perceived merits of any legal proceedings or unasserted claims and the amount of relief sought or expected to be sought.

If the assessment of a contingency suggests that a loss is probable, the amount can be reliably estimated, and there is a present obligation as a result of a past event, then a loss is recorded. The details of a contingent loss are disclosed unless the possibility of any outflow in settlement is remote. Legal fees incurred with pending legal proceedings are expensed as incurred.

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 in the consolidated statement of loss. The Company indemnified the subscribers of current and previous flow-through share offerings against any tax-related amounts that become payable by the shareholder as a result of the Company not meeting its expenditure commitments. The Company had no flow-through shares as at December 31, 2018 and 2017.

Changes in accounting policies

Share-based payments and warrants

During the year ended December 31, 2018, the Company elected to change its accounting policy for the treatment of share-based payments and warrants whereby amounts recorded for expired unexercised share options and warrants are transferred to deficit on expiry. The value of unexercised and outstanding warrants and options will continue to be recorded in the warrant reserve and share based payment reserve accounts, respectively. The Company believes that this presentation provides more relevant financial information. Previously, the Company's policy was to record the value of expired options and warrants within share based payment reserve along with the value of outstanding share options.

The Company also changed its policy in connection with the approach to valuing warrants issued as part of a unit in an equity financing. Previously, the Company recorded the value to be \$nil, as a result of using a residual method to allocation the proceeds from a unit financing to shares and warrants. The Company has retroactively applied a method of allocating the proceeds to the shares and warrants based on a fair value approach.

A summary of changes to the comparative figures to reflect the retrospective changes in accounting policy is as follows:

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies (continued)

Share-based payments and warrants (continued)

Consolidated statements of financial position:

- No changes in assets, liabilities, or total shareholders' equity (deficiency).
- Changes within shareholders' equity (deficiency) as follows:

	2017 (as originally reported)	Adjustment	2017 (as restated)
	\$	\$	\$
Share capital	16,177,482	(283,000)	15,894,482
Warrants	1,030,238	(873,238)	157,000
Share based payments	2,050,450	(1,756,201)	294,249
Deficit	(19,364,391)	2,912,438	(16,451,953)
Total shareholders' equity (deficiency)	(106,221)	(1)	(106,222)

	2016 (as originally reported)	Adjustment	2016 (as restated)
	\$	\$	\$
Share capital	15,587,631	(126,000)	15,461,631
Warrants	1,030,238	(904,238)	126,000
Share based payments	1,848,908	(1,756,201)	92,707
Deficit	(18,998,158)	2,786,439	(16,211,719)
Total shareholders' equity (deficiency)	(531,381)	-	(531,381)

- No changes in the consolidated statements of loss and comprehensive loss.
- No changes in the consolidated statements of cash flows.

Accounting changes

During fiscal 2018, the Company adopted a number of new IFRS standards, interpretations, amendments and improvements of existing standards, including IFRS 2, IFRS 9 and IFRIC 22. The new standards and changes did not have any material impact on the Company's consolidated financial statements.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies (continued)

Accounting changes (continued)

IFRS 9, Financial Instruments

IFRS 9 replaces International Accounting Standard (“IAS”) 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for the classification, measurement and impairment of financial assets and hedge accounting. It establishes two primary measurement categories for financial assets: (i) amortized cost and (ii) fair value either through profit or loss (“FVPL”) or through other comprehensive income (“FVOCI”); establishes criteria for the classification of financial assets within each measurement category based on business model and cash flow characteristics; and eliminates the existing held for trading, held to maturity, available for sale, loans and receivable and other financial liabilities categories. IFRS 9 also introduces a new expected credit loss model for the purpose of assessing the impairment of financial assets.

The following table shows the previous classification under IAS 39 and the new classification under IFRS 9 for the Company’s financial instruments:

	Financial instrument classification	
	Under IAS 39	Under IFRS 9
Financial assets		
Cash	Loans and receivables	Amortized cost
Amounts receivable	Loans and receivables	Amortized cost
Financial liabilities		
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost

The Company adopted IFRS 9 retrospectively without restating comparatives and therefore the comparative information in respect of financial instruments for the year ended December 31, 2017 was accounted for in accordance with the Company’s previous accounting policy under IAS 39. Significant accounting policies which outline the current and previous accounting policies pertaining to financial instruments.

New and future accounting changes

Certain new standards, interpretations, amendments and improvements to existing standards were issued by the IASB or IFRIC that are mandatory for annual accounting periods beginning on January 1, 2019 or later. Updates that are not applicable or are not consequential to the Company have been excluded.

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to 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 are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

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2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in accounting policies (continued)

Future accounting changes (continued)

IFRIC 23 – Uncertainty Over Income Tax Treatments (“IFRIC 23”) was issued in June 2017 and clarifies the accounting for uncertainties in income taxes. The interpretation committee concluded that an entity shall consider whether it is probable that a taxation authority will accept an uncertain tax treatment. If an entity concludes it is probable that the taxation authority will accept an uncertain tax treatment, then the entity shall determine taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates consistently with the tax treatment used or planned to be used in its income tax filings. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the entity shall reflect the effect of uncertainty in determining the related taxable profit (tax loss), tax bases, unused tax losses and credits or tax rates. IFRIC 23 is effective for annual periods beginning on or after January 1, 2019. The Company does not expect the adoption of IFRIC 23 to have a significant impact on its consolidated financial statements.

IFRS 16 – Leases (“IFRS 16”) was issued in January 2016 and replaces IAS 17 – Leases as well as some lease related interpretations. With certain exceptions for leases under twelve months in length or for assets of low value, IFRS 16 states that upon lease commencement a lessee recognises a right-of-use asset and a lease liability. The right-of-use asset is initially measured at the amount of the liability plus any initial direct costs. After lease commencement, the lessee shall measure the right-of-use asset at cost less accumulated depreciation and accumulated impairment. A lessee shall either apply IFRS 16 with full retrospective effect or alternatively not restate comparative information but recognise the cumulative effect of initially applying IFRS 16 as an adjustment to opening equity at the date of initial application. IFRS 16 requires that lessors classify each lease as an operating lease or a finance lease. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. Otherwise it is an operating lease. IFRS 16 is effective for annual periods beginning on or after January 1, 2019. The Company does not expect the adoption of IFRS 16 to have a significant impact on its consolidated financial statements.

3. CRITICAL ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS

The preparation of the audited consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. Such estimates and assumptions affect the carrying value of assets and impact decisions as to when exploration and development costs should be capitalized or expensed. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The significant areas of judgement and estimation uncertainty considered by management in preparing the consolidated financial statements include:

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3. CRITICAL ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS (CONTINUED)

Critical judgment in applying accounting policies:

- Assets' carrying values and impairment charges

Events or changes in circumstances can give rise to significant impairment charges or reversals of impairment in a particular year. Management exercises its judgment in determining when such events or changes in circumstances have arisen and where such circumstances evidence a significant or prolonged decline of fair value on assets indicating impairment.

- Control of subsidiaries

The Company consolidates subsidiaries over which it has control. Management assesses control in accordance with IFRS 10 - Consolidated Financial Statements and has determined it controls each of its subsidiaries.

- Determination of functional currency

Based on the primary indicators in IAS 21 – The Effects of Change in Foreign Exchange Rates – the Canadian dollar has been determined as the functional currency of the Company and all subsidiaries, as the Canadian dollar is the currency in which funds from financing activities (i.e. issuing debt and equity instruments) are generated and because the activities of the foreign operation are carried out as an extension of the reporting entity, rather than being carried out with a significant degree of autonomy. Effects of changes in foreign exchange rates are recorded as foreign exchange gain (loss) on the consolidated statement of loss. If the functional currency of the United States entity had been the US dollar, the effect of changes in foreign exchange rates would have been reflected as other comprehensive income and carried as a cumulative translation adjustment within accumulated other comprehensive income in the equity section of the consolidated statement of financial position.

Key sources of estimation uncertainty:

- Assets' carrying values and impairment charges

The determination of carrying values and impairment charges and their individual assumptions require that management make an estimate based on the best available information at each reporting period. Under situations where management has determined indicators of impairment are present, an impairment assessment will be performed by management whereupon management looks at the higher of recoverable amount or fair value less costs to sell in the case of assets.

- Estimation of decommissioning and restoration costs and the timing of expenditure

The cost estimates are updated annually to reflect known developments, (e.g. revisions to cost estimates and to the estimated lives of operations) and are subject to review at regular intervals. Decommissioning, restoration and similar liabilities are estimated based on the Company's interpretation of current regulatory requirements, constructive obligations and are measured at fair value. Fair value is determined based on the net present value of estimated future cash expenditures for the settlement of decommissioning, restoration or similar liabilities that may occur upon decommissioning of the mine. Such estimates are subject to change based on changes in laws and regulations and negotiations with regulatory authorities.

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3. CRITICAL ACCOUNTING ESTIMATES AND MANAGEMENT JUDGMENTS (CONTINUED)

Key sources of estimation uncertainty: (continued)

- Income, value added, withholding and other taxes

In assessing the probability of realizing income tax assets recognized, management makes estimates related to expectations of future taxable income, applicable tax planning opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified. Estimates of future taxable income are based on forecasted cash flows from operations and the application of existing tax laws in each jurisdiction. The Company considers whether relevant tax planning opportunities are within the Company's control, are feasible, and are within management's ability to implement. Examination by applicable tax authorities is supported based on individual facts and circumstances of the relevant tax position examined in light of all available evidence. Where applicable tax laws and regulations are either unclear or subject to ongoing varying interpretations, it is reasonably possible that changes in these estimates can occur that materially affect the amounts of income tax assets recognized. Also, future changes in tax laws could limit the Company from realizing the tax benefits from the deferred tax assets. The Company reassesses unrecognized income tax assets at each reporting period.

The Company is subject to income, value added, withholding and other taxes. Significant judgment is required in determining the Company's provisions for taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. The determination of the Company's income, value added, withholding and other tax liabilities requires interpretation of complex laws and regulations. The Company's interpretation of taxation law as applied to transactions and activities may not coincide with the interpretation of the tax authorities. All tax related filings are subject to government audit and potential reassessment subsequent to the financial statement reporting period. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the tax related accruals and deferred income tax provisions in the period in which such determination is made.

- Share based payment transactions and warrants

The Company records share-based payments at fair value over the vesting period. The Company also issues warrants. The fair value of the options and warrants is determined using the Black-Scholes options pricing model and management assumptions including the expected dividend yield, expected volatility, forfeiture rate, risk free rate and expected life. Should the underlying assumptions change, it will impact the fair value. Such judgments and assumptions are inherently uncertain. Changes in these assumptions affect the fair value estimates.

- Contingencies

Refer to Notes 1 and 16.

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4. AMOUNTS RECEIVABLE

	December 31, 2018		December 31, 2017	
Sales taxes receivable	\$	35,437	\$	1,909
Other		343		-
	\$	35,780	\$	1,909

5. PREPAID EXPENSES

	December 31, 2018		December 31, 2017	
Insurance	\$	6,058	\$	-
	\$	6,058	\$	-

6. PROPERTY PLANT AND EQUIPMENT

Reconciliation of the carrying amounts for the years ended December 31, 2018 and 2017 are as follows:

Cost	Automotive		Computer equipment		Field equipment		Office equipment		Total
Balance, December 31, 2016	\$	11,773	\$	9,101	\$	73,828	\$	5,193	\$ 99,895
Net additions (disposal) in 2017		-		-		-		-	-
Balance, December 31, 2017		11,773		9,101		73,828		5,193	99,895
Net additions (disposal) in 2018		(11,773)		(9,101)		(73,828)		(5,193)	(99,895)
Balance, December 31, 2018	\$	-	\$	-	\$	-	\$	-	\$ -

Accumulated amortization

Balance, December 31, 2016	\$	11,773	\$	9,101	\$	72,233	\$	5,122	\$ 98,229
Amortization in 2017		-		-		652		71	723
Balance, December 31, 2017		11,773		9,101		72,885		5,193	98,952
Amortization in 2018		-		-		943		-	943
Assets scrapped		(11,773)		(9,101)		(73,828)		(5,193)	(99,895)
Balance, December 31, 2018	\$	-	\$	-	\$	-	\$	-	\$ -

Net book value

Net book value, December 31, 2017	\$	-	\$	-	\$	943	\$	-	\$ 943
Net book value, December 31, 2018	\$	-	\$	-	\$	-	\$	-	\$ -

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7. EXPLORATION AND EVALUATION EXPENDITURES

The Company maintains certain mineral claims near Mine Centre, Ontario that include the historic Foley gold mine and the McKenzie Gray gold/silver zone. The Company also holds certain Bureau of Land Management (U.S. Department of the Interior) Mineral Claims near Crown King, Arizona. See Note 16.

	Years ended December 31,	
	2018	2017
<u>Mineral Creek Arizona properties</u>		
Labour and consulting	\$ 20,112	\$ 34,044
Assays and mapping	-	965
Drilling	-	58,437
Field expenses	-	39,331
Property maintenance	1,621	3,404
Option payment	-	13,074
Travel and accommodation	530	7,118
Truck rental	-	597
	\$ 22,263	\$ 156,970
<u>Q-Gold Ontario properties</u>		
Labour and consulting	\$ 15,000	\$ 15,150
Land and property taxes	19,489	-
Rent for Core shacks	25,250	-
	\$ 59,739	\$ 15,150
Total Exploration and Evaluation Expenditures	\$ 82,002	\$ 172,120

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	December 31, 2018	December 31, 2017
Trade payables	\$ 51,853	\$ 70,428
Accruals	25,105	15,000
Interest payable	-	22,168
Share subscription payable	-	2,947
	\$ 76,958	\$ 110,543

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9. SHARE CAPITAL

a) Authorized

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

On January 16, 2018, the Company's shares were consolidated on a 1 new share for every 4 old share basis. All common shares, options, warrants and per share amounts have been restated to give retroactive effect to the share consolidation.

b) Issued and outstanding common shares

Reconciliation of the number and value of common shares for the periods ended December 31, 2018 and 2017 were as follows. All issued shares are fully paid.

	Number of Common Shares		Amount
Balance, December 31, 2016	6,368,209	\$	15,461,631
Shares issued during 2017	3,000,000		600,000
Value allocation on warrants issued	-		(157,000)
Share issue costs	-		(10,150)
Balance, December 31, 2017	9,368,209	\$	15,894,481
Private placement - units	10,000,000		1,000,000
Value allocation on warrants issued	-		(263,320)
Share issue costs	-		(10,040)
Balance, December 31, 2018	19,368,209	\$	16,621,121

On July 5, 2018, the Company completed a private placement offering for gross proceeds of \$1,000,000. The offering consisted of: 10,000,000 Units at a price of \$0.10 per Unit. Each Unit consists of one common share of the Company and one common share purchase warrant, entitling the holder to acquire one additional common share at an exercise price of \$0.15 for a period of 24 months from issuance. The issue date fair value of the warrants was estimated at \$263,230 using the Black Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 99.6%; risk-free interest rate 1.91% and an expected life of 2 years. The Company paid finder fees and other share and warrant issue costs totaled \$13,630. The units were subscribed to in cash for \$936,460 as well as debt settlement of \$63,540.

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9. SHARE CAPITAL (CONTINUED)

b) Issued and outstanding common shares (continued)

On December 27, 2017, the Company completed a non-brokered private placement for gross proceeds of \$600,000, issuing 3,000,000 units at \$0.20 cents per unit. Each unit consisting of one common share and one common share purchase warrant, entitling the holder to acquire one common share of the Company at a price of \$0.30 on or before December 27, 2019. The issue date fair value of the warrants was estimated at \$182,000 using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 100%; risk free interest rate of 1.0% and an expected life of 2 years. The units were subscribed in cash of \$210,163 as well as debt settlement of \$389,837 relating to certain liabilities.

10. RESERVES

Options and share purchase warrant transactions for the years ended December 31, 2018 and 2017 are summarized as follows:

	Options			Warrants		
	Number of Options	Weighted average exercise prices	Value of options	Number of warrants	Weighted average exercise prices	Value of warrants
December 31, 2016 (Note 2)	562,500	\$ 0.40	\$ 92,707	2,700,000	\$ 0.40	\$ 126,000
Granted	-	-	-	3,000,000	0.30	157,000
Expired	-	-	-	(2,700,000)	(0.40)	(126,000)
Revaluation of options	-	0.20	201,542	-	-	-
December 31, 2017 (Note 2)	562,500	\$ 0.20	\$ 294,249	3,000,000	\$ 0.30	\$ 157,000
Granted	900,000	0.20	133,200	10,000,000	\$ 0.15	\$ 263,320
Expired	(112,500)	(0.20)	(58,850)	-	-	-
Warrant issue costs	-	-	-	-	-	(3,590)
December 31, 2018	1,350,000	\$ 0.20	\$ 368,599	13,000,000	\$ 0.18	\$ 416,730

a) 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 shall not be less than 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 November 22, 2018, the Company granted 900,000 stock options to certain directors, officers and consultants of the Company. The options vested immediately on the date of grant and are exercisable at a price of \$0.20 per option for a period of three years from the date of grant. The fair value of these options was estimated on the date of the grant using the Black-Scholes option pricing model at \$133,200, with the following assumptions: expected volatility 141%, expected dividend yield of 0%, risk-free interest rate of 2.25% and expected life of 3 years.

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10. RESERVES (CONTINUED)

a) Stock options (continued)

There were no options granted during fiscal 2017. At a shareholders' meeting on July 31, 2017, approval was obtained and the exercise price of the 562,500 outstanding stock options at the time were re-priced to \$0.20 each (from \$0.40). The stock based payment recognized under the fair value method for the options granted in 2015 was \$24,827 and \$67,880 for those issued in 2016. As a result of the repricing, the Company recognized an additional fair value of \$135,853 and \$65,689 respectively for these options.

Q-Gold uses the Black-Scholes option pricing model to value stock options. The weighted average contractual years remaining on its outstanding options, as of December 31, 2018, was 2.66 years (December 31, 2017 – 3.5 years).

As at December 31, 2018, the Company had stock options outstanding and exercisable as follows:

Grant date	Expiry date	Number Outstanding	Number Exercisable	Exercise Price	Grant date Fair Value
December 18, 2015	December 18, 2020	250,000	250,000	\$0.20	\$ 128,544
June 9, 2016	June 9, 2021	200,000	200,000	\$0.20	\$ 106,855
November 22, 2018	November 22, 2021	900,000	900,000	\$0.20	\$ 133,200
		1,350,000	1,350,000		\$ 368,599

b) Warrants

The Company also changed its policy in connection with the approach to valuing warrants issued as part of a unit in an equity financing. Previously, the Company recorded the value to be \$nil, as a result of using a residual method to allocate the proceeds from a unit financing to shares and warrants. The Company has retroactively applied a method of allocating the proceeds to the shares and warrants based on a fair value approach. As a result, upon the issue of 10,000,000 warrants in terms of the private placement on July 5, 2018, fair value of \$263,320 was attributed to warrants.

As at December 31, 2018, the Company has share purchase warrants outstanding as follows:

Grant date	Expiry date	Number Outstanding	Number Exercisable	Exercise Price	Grant date Fair Value
December 27, 2017	December 27, 2019	3,000,000	3,000,000	\$0.30	\$ 157,000
July 5, 2018	July 5, 2020	10,000,000	10,000,000	\$0.15	\$ 263,320
		13,000,000	13,000,000		\$ 420,320

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11. RELATED PARTY TRANSACTIONS

Compensation of Key Management

Key management includes the Company's directors and officers. Compensation awarded to key management included:

	Years ended December 31,	
	2018	2017
Short-term benefits	\$ 101,072	\$ 54,541
Share-based payments	59,200	161,233
	<u>\$ 160,272</u>	<u>\$ 215,774</u>

Included in accounts payable and accrued liabilities as at December 31, 2018 is approximately \$5,108 (December 31, 2017 - \$45,878) due to officers, directors and family members of directors of the Company. These amounts are unsecured, non interest bearing and due on demand.

Of the total private placement financing completed in July 2018, 434,760 units were subscribed by directors, officers, or former directors and officers of the Company, or their immediate family.

Of the total options granted on November 22, 2018, 400,000 options were granted to directors and officers of the Company.

12. FINANCIAL INSTRUMENTS

Financial instruments measured at fair value on the consolidated statements of financial position are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments consist of cash, amounts receivable, accounts payable and accrued liabilities. The fair value of these financial instruments approximates their carrying values due to the short-term nature of these instruments. The Company has no financial instruments recorded at fair value.

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12. FINANCIAL INSTRUMENTS (CONTINUED)

Financial assets and financial liabilities as at December 31, 2018 and 2017 were as follows:

	Amortized cost (2017 loans and receivables)	Amortized cost (2017 other liabilities)	TOTAL
<u>At December 31, 2018</u>			
Financial assets:			
Cash	\$ 454,734	\$ -	\$ 454,734
Amounts receivable	\$ 343	\$ -	\$ 343
Financial liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ 76,958	\$ 76,958
<u>At December 31, 2017</u>			
Financial assets:			
Cash	\$ 1,469	\$ -	\$ 1,469
Financial liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ 110,543	\$ 110,543

13. FINANCIAL RISK FACTORS

Q-Gold is exposed to a number of different risks arising from normal course business exposures, as well as the Company'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. The Company's ability to continue as a going concern is dependent on the Board and Management's ability to raise the required capital through future equity sales or debt issues. As Q-Gold is in the exploration stage, it has no production upon which it could rely to fund its operations or the exploration of its properties.

Financial liabilities consist of accounts payable which are current and will be settled within one year. As of December 31, 2018, \$4,110 (December 31, 2017 - \$73,907) in accounts payable were aged over ninety days, with \$49 (December 31, 2017 - \$3,241) being aged between 31-90 days and the remaining \$72,799 (December 31, 2017 - \$33,395) being aged less than 30 days.

b) Credit risk

Credit risk is the risk that a 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. With respect to credit risk arising from financial assets of the Company, which comprises cash and minimal receivables, the Company's maximum exposure equals the carrying amount of these instruments. Cash is held with high credit quality financial institutes and credit risk is considered minimal. The Company continues to monitor and is subject to, normal mining industry credit risks.

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13. FINANCIAL RISK FACTORS (CONTINUED)

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 relative to the Canadian dollar will, consequently, have an impact upon the reported results of the Company and may also affect the value of its assets and liabilities. The Company has sought to minimize this risk by keeping its cash reserves in Canadian dollars and only purchasing US dollars as needed. Q-Gold has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time.

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 the Company's consolidated financial statements.

14. CAPITAL DISCLOSURES

Q-Gold's capital structure consists of shareholders' equity and current liabilities. The primary capital management objectives are to maintain a flexible capital structure, which optimizes the cost of capital at acceptable risk to facilitate ongoing exploration 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, 2018, Q-Gold had working capital of \$419,614 (December 31, 2017 – deficiency of \$107,165) and no long-term debt. The Company currently is not subject to external restrictions.

No other capital requirements are imposed by a lending institution or regulatory body, other than of the TSXV which requires adequate working capital or financial resources of the greater of (i) \$50,000 and (ii) an amount required in order to maintain operations and cover general and administrative expenses for a period of 6 months.

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15. CHANGE IN WORKING CAPITAL

Change in working capital consists of the following:

	December 31, 2018	December 31, 2017
Accounts receivable	\$ (32,677)	\$ 265
Prepaid	(6,058)	-
Accounts payable	(31,188)	103,709
Share subscriptions repayable	(2,947)	(15,728)
	<u>\$ (72,870)</u>	<u>\$ 88,246</u>

16. COMMITMENTS AND CONTINGENCIES

Management contracts

The Company is party to certain management contracts and severance obligations. These contracts contain clauses requiring additional payments of up to \$180,000 to be made to the officers of the Company upon the occurrence of certain events such as a change of control. As the triggering effect has not taken place, the contingent payments have not been reflected in these consolidated financial statements. Additional minimum management contractual commitments remaining under the agreements are approximately \$144,462, all due within one year.

Exploration properties

Arizona Mineral Properties

The Company currently holds mineral claims administered by the United States Department of the Interior, Bureau of Land Management in Arizona.

The Company 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 claim) held by Q-Gold's Arizona subsidiary. The payments for 2018 have been made.

Ontario Mineral Properties

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 are not expected to require additional assessment work in 2019.

Environmental

The Company's mining and exploration activities are subject to various laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations. The Company has made, and expects to make in the future, expenditures to comply with such laws and regulations

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17. INCOME TAXES

a) Provision for Income Taxes

Major items causing the Company's effective income tax rate to differ from the combined Canadian federal and provincial statutory rate of 26.5% (2017 - 26.5%) were as follows:

	2018	2017
	\$	\$
Combined Canadian statutory income tax rate	26.50%	26.50%
(Loss) before income taxes	(593,734)	(366,232)
Expected income tax recovery based on statutory rate	(157,000)	(97,000)
Adjustment to expected income tax benefit:		
Share based payments	35,000	53,000
Other	122,000	44,000
Deferred income tax provision (recovery)	-	-

b) Deferred Income Tax

Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	2018	2017
	\$	\$
Exploration and evaluation	155,000	96,000
Share issue costs	20,000	20,000
Equipment	26,000	26,000
Non-capital loss carry-forward	3,494,000	3,148,000
Total	3,695,000	3,290,000

The Company also expects to have losses in the US subsidiary that have not been recognized.

Deferred tax assets have not been recognized in respect of these temporary differences as it is not probable that future taxable profit will be available against which the Company can utilize the assets.

c) Losses Carried Forward

As at December 31, 2018, the Company had estimated non-capital losses for Canadian income tax purposes of approximately \$3,494,000 (2017 - \$3,148,000) available to use against future taxable income. The non-capital losses expire between 2026 and 2038.