

# **K2 Gold Corporation**

## **CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

**In Canadian Dollars**

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of  
K2 Gold Corporation

### *Opinion*

We have audited the accompanying consolidated financial statements of K2 Gold Corporation (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018 and the consolidated statements of loss and comprehensive loss, cash flows and changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### *Basis for Opinion*

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

### *Material Uncertainty Related to Going Concern*

We draw attention to Note 1 of the consolidated financial statements, which indicates that although the Company has been successful in the past in obtaining financing, there can be no assurances that the Company will continue to obtain the additional financial resources necessary and/or achieve profitability or positive cash flows from its future operations. If the Company is unable to obtain adequate additional financing, the Company would be required to curtail its planned operations and exploration activities. As stated in Note 1, these events and conditions indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### *Other Information*

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Professional Accountants

April 29, 2020

**K2 Gold Corporation**  
**Consolidated Statements of Financial Position**  
**For the Years Ended December 31, 2019 and 2018**  
*(Amounts are expressed in Canadian Dollars)*

	Note(s)	December 31, 2019	December 31, 2018
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents		\$ 2,880,811	\$ 341,624
Amounts receivable		18,298	6,584
Prepaid expenses		20,723	44,242
Marketable securities	4	61,373	52,983
		<u>2,981,205</u>	<u>445,433</u>
Exploration and evaluation assets	5,8	4,125,252	2,705,001
<b>TOTAL ASSETS</b>		<b>\$ 7,106,457</b>	<b>\$ 3,150,434</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities	8	\$ 271,223	\$ 52,823
		<u>271,223</u>	<u>52,823</u>
<b>Shareholders' Equity</b>			
Share capital	6	18,063,244	14,244,029
Reserves	6	4,289,640	3,347,703
Accumulated other comprehensive income		50,335	41,945
Deficit		<u>(15,567,985)</u>	<u>(14,536,066)</u>
		6,835,234	3,097,611
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>\$ 7,106,457</b>	<b>\$ 3,150,434</b>

Nature of operations and going concern (Note 1)  
 Commitments (Note 10)

Approved on behalf of the Board of Directors on April 29, 2020:

"Stephen Swatton", Director

"Craig Roberts", Director

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

**K2 Gold Corporation**  
**Consolidated Statements of Loss and Comprehensive Loss**  
**For the Years Ended December 31, 2019 and 2018**  
*(Amounts are expressed in Canadian Dollars)*

	Note(s)	2019	2018
<b>Expenses</b>			
Advertising, marketing and promotion	8	\$ 56,158	\$ 98,827
Consulting		4,757	47,187
Corporate listing and filing fees		76,070	39,965
Office and administration		41,993	48,938
Personnel	8	253,580	269,086
Professional fees		62,861	43,220
Property Investigation		5,026	-
Rent	8	25,980	29,912
Share-based compensation	8	467,784	-
Travel and conferences		64,519	51,441
<b>Loss Before the Undernoted</b>		<b>(1,058,728)</b>	<b>(628,576)</b>
<b>Other Income (expenses)</b>			
Interest income		26,809	7,899
Amortization of FT premium liability		-	16,000
Write-off of exploration and evaluation assets	5	-	(395,574)
Loss on settlement of debt		-	(5,706)
<b>Loss for the Year</b>		<b>(1,031,919)</b>	<b>(1,005,957)</b>
Unrealized gain on marketable securities	4	8,390	4,415
<b>Comprehensive Loss for the Year</b>		<b>\$ (1,023,529)</b>	<b>\$ (1,001,542)</b>
<b>Loss per share – basic and diluted</b>		<b>\$ (0.03)</b>	<b>\$ (0.05)</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>		<b>31,974,284</b>	<b>21,469,229</b>

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

**K2 Gold Corporation**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended December 31, 2019 and 2018**  
*(Amounts are expressed in Canadian Dollars)*

<b>Cash Provided By (Used In):</b>	<b>Note(s)</b>	<b>2019</b>	<b>2018</b>
<b>Operating activities:</b>			
Net loss for the year		\$ (1,031,919)	\$ (1,005,957)
Items not involving cash:			
Amortization of FT premium liability		-	(16,000)
Share-based compensation	6,8	467,784	-
Write-off of exploration and evaluation assets	5	-	395,574
Loss on settlement of debt		-	5,706
Change in non-cash working capital items:			
Accounts receivable		(11,714)	42,586
Prepaid expenses		23,519	(10,163)
Accounts payable and accrued liabilities		(952)	3,526
		(553,282)	(584,728)
<b>Investing activities:</b>			
Exploration and evaluation expenditures	5	(787,501)	(513,549)
		(787,501)	(513,549)
<b>Financing activities:</b>			
Proceeds from issuance of shares	6	3,500,000	1,046,500
Share issue costs	6	(20,030)	(35,010)
Proceeds from warrants exercised	6	400,000	-
		3,879,970	1,011,490
Net increase (decrease) in cash and cash equivalents		2,539,187	(86,787)
Cash and cash equivalents, beginning of year		341,624	428,411
Cash and cash equivalents, end of year		\$ 2,880,811	\$ 341,624

**Supplemental Schedule of Non-Cash investing and Financing Activities**

Exploration and evaluation assets included in accounts payable and accrued liabilities		\$ 219,352	\$ -
Shares issued for exploration and evaluation assets	5,6	\$ 344,250	\$ 333,821
Shares issued for finders fees	6	\$ 229,284	\$ -
Shares issued for finders fees for exploration and evaluation assets	5,6	\$ 69,148	\$ -
Fair value allocation of units issued	6	\$ 586,153	\$ 195,000
Fair value of warrants exercised	6	\$ 112,000	\$ -
Fair value of warrants issued as finders' fees		\$ -	\$ 8,390
Change in fair value of marketable securities	4	\$ 8,390	\$ 4,415
<b>Cash and cash equivalents consist of</b>			
Cash		\$ 2,855,811	\$ 316,624
Cashable Guaranteed Investment Certificate		\$ 25,000	\$ 25,000
<b>Cash paid during the year for interest</b>		\$ -	\$ -
<b>Cash paid during the year for income taxes</b>		\$ -	\$ -

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

**K2 Gold Corporation**  
**Consolidated Statement of Changes in Shareholders' Equity**  
**For the Years Ended December 31, 2019 and 2018**  
*(Amounts are expressed in Canadian Dollars)*

	Share Capital			Accumulated Other Comprehensive Income	Deficit	Total
	Number of Shares	Amount	Reserves			
<b>Balance, December 31, 2017</b>	<b>18,381,787</b>	<b>\$ 13,118,108</b>	<b>\$ 3,144,313</b>	<b>\$ 37,530</b>	<b>\$ (13,530,109)</b>	<b>\$ 2,769,842</b>
Shares issued for exploration & evaluation asset	1,385,283	333,821	-	-	-	333,821
Private placement – flow-through	320,000	80,196	15,804	-	-	96,000
Private placement – non-flow-through	3,802,000	762,730	187,770	-	-	950,500
Share issuance costs	-	(34,826)	(184)	-	-	(35,010)
Flow-through share premium	-	(16,000)	-	-	-	(16,000)
Unrealized gain on marketable securities	-	-	-	4,415	-	4,415
Loss for the year	-	-	-	-	(1,005,957)	(1,005,957)
<b>Balance, December 31, 2018</b>	<b>23,889,070</b>	<b>\$ 14,244,029</b>	<b>\$ 3,347,703</b>	<b>\$ 41,945</b>	<b>\$ (14,536,066)</b>	<b>\$ 3,097,611</b>
Shares issued for exploration & evaluation assets	1,462,764	413,398	-	-	-	413,398
Private placement – non-flow-through	14,000,000	2,913,847	586,153	-	-	3,500,000
Share issued for private placement finders fees	694,800	-	-	-	-	-
Warrants exercised	4,000,000	400,000	-	-	-	400,000
Share issuance costs	-	(20,030)	-	-	-	(20,030)
Fair value of warrants exercised	-	112,000	(112,000)	-	-	-
Share-based compensation	-	-	467,784	-	-	467,784
Unrealized gain on marketable securities	-	-	-	8,390	-	8,390
Loss for the year	-	-	-	-	(1,031,919)	(1,031,919)
<b>Balance, December 31, 2019</b>	<b>44,046,634</b>	<b>\$ 18,063,244</b>	<b>\$ 4,289,640</b>	<b>\$ 50,335</b>	<b>\$ (15,567,985)</b>	<b>\$ 6,835,234</b>

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

**K2 Gold Corporation**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**  
*(Amounts are expressed in Canadian Dollars)*

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

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

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

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

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to continue its operation as a going concern for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. At December 31, 2019, the Company had not achieved profitable operations and had an accumulated deficit. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

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

In March 2020 the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Company to predict the duration or magnitude of the adverse results of the outbreak and its effects on the Company’s business or ability to raise funds.

**2. Basis of Presentation**

**a) Statement of Compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”). In addition, these consolidated financial statements have been prepared using interpretations issued by the International Financial Reporting Interpretation Committee (“IFRIC”) in effect at December 31, 2019 and the same accounting policies and methods of their application as the most recent annual financial statements of the Company, except the newly adopted standards and interpretations described below (Note 3).

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

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 29, 2020.

**K2 Gold Corporation**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**  
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**2. Basis of Presentation** (continued)

**c) Functional and Presentation Currency**

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

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

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

**d) Basis of consolidation:**

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

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

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

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

*Deferred tax assets and liabilities*

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

**K2 Gold Corporation**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**  
*(Amounts are expressed in Canadian Dollars)*

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**2. Basis of Presentation** (continued)

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

*Carrying value and recoverability of exploration and evaluation assets*

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

*Share-based compensation*

Share-based compensation expense is measured by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures and making assumptions about them. The value of the share-based compensation expense for the years ended December 31, 2019 and 2018 are disclosed in Note 6.

**3. Significant Accounting Policies**

**a) Exploration and evaluation assets**

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

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

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

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

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

**K2 Gold Corporation**  
**(An Exploration Stage Company)**  
**Notes to the Consolidated Financial Statements**  
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**3. Significant Accounting Policies** (continued)

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

Once an economically viable reserve has been determined for a property and the decision to proceed with development has been approved, acquisition, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress within property and equipment.

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

**b) Financial instruments**

*Classification*

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

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

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

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

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

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

Cash and cash equivalents	Amortized cost
Accounts receivable	Amortized cost
Investments	Fair value through profit or loss
Marketable securities	Fair value through other comprehensive income
Accounts payable, Accrued liabilities	Amortized cost

*Measurement*

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

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

**K2 Gold Corporation**  
**(An Exploration Stage Company)**  
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**For the Years Ended December 31, 2019 and 2018**  
*(Amounts are expressed in Canadian Dollars)*

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

**b) Financial instruments** (Continued)

*Impairment*

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

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

At the end of each reporting period, the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in profit or loss for the period. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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

**d) Share-based compensation**

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

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

**e) Share Capital**

- i. The proceeds from the exercise of stock options, common share purchase warrants and purchase of common shares are recorded as share capital in the amount for which the option, warrant or share enabled the holder to purchase a common share in the Company.

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

**e) Share Capital (continued)**

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

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

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

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

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

**g) Income Taxes**

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

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

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

**h) Loss per Common Share**

The Company presents basic and diluted loss per share data for its common shares. Basic loss per common share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted loss per common share is

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

**h) Loss per Common Share** (continued)

calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive share equivalents, such as stock options and warrants and assumes the receipt of proceeds upon exercise of the dilutive securities to determine the number of shares assumed to be purchased at the average market price during the year.

**i) Comprehensive Income or Loss**

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

**j) Recent Accounting Pronouncements**

*New and Revised Standards and Interpretations*

*i. Revised accounting pronouncements adopted during the year*

On January 1, 2019, the Company adopted IFRS 16, Leases and IFRIC 23, Uncertainty over Income Tax Treatments which has an initial application as at this date.

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

The newly adopted IFRIC 23, Uncertainty over Income Tax Treatments clarifies the accounting for uncertainties in income taxes. The interpretation provides guidance and clarifies the application of the recognition and measurement criteria in IAS 12, Income Taxes when there is uncertainty over income tax treatments. The adoption of IFRIC 23 has not had an impact on the consolidated financial statements of the Company.

**4. Marketable Securities**

On June 17, 2015, the Company entered into a debt settlement agreement with Bluestone Resources Inc. ("Bluestone") whereby Bluestone issued 220,765 of its shares to settle the debt of \$11,038 owing to the Company.

The shares were issued on July 20, 2015. The Bluestone shares were consolidated on the basis of one (1) new post-consolidation share for every five (5) pre-consolidation shares, effective May 24, 2017. As a result of this consolidation, K2 Gold Corporation owns 44,153 common shares in Bluestone Resources Inc.

The fair value of these common shares as at July 20, 2015, the date of the receipt of Bluestone shares, was \$11,038. The fair value as at December 31, 2019 was \$61,373 (2018 - \$52,983) which resulted in an unrealized gain of \$8,390.

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**5. Exploration and Evaluation Assets**

<b>Mojave Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2017 and 2018</b>	<b>\$</b>	-	-	-
Taxes Paid		127,813	-	127,813
Legal		39,781	-	39,781
Cash Payment		150,244	-	150,244
Shares issued		225,148	-	225,148
Geology		-	270,343	270,343
Aviation		-	2017	2,017
Travel		-	79,914	79,914
<b>Balance, December 31, 2019</b>	<b>\$</b>	<b>542,986</b>	<b>352,274</b>	<b>895,260</b>

  

<b>Wels Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>952,557</b>	<b>980,327</b>	<b>1,932,884</b>
Cash Payment		100,000	-	100,000
Advanced royalty payment		20,000	-	20,000
Shares issued		237,500	-	237,500
Aviation		-	37,124	37,124
Community relations		-	2,837	2,837
Geology		-	185,296	185,296
Land uses and licenses		-	2,556	2,556
Travel		-	43,242	43,242
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>1,310,057</b>	<b>1,251,382</b>	<b>2,561,439</b>
Advanced royalty payment		20,000	-	20,000
Shares issued		127,500	-	127,500
Aviation		-	37,321	37,321
Community relations		-	2,649	2,649
Geology		-	70,707	70,707
Travel		-	36,221	36,221
<b>Balance, December 31, 2019</b>	<b>\$</b>	<b>1,457,557</b>	<b>1,398,280</b>	<b>2,855,837</b>

  

<b>Ladue Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2017</b>	<b>\$</b>	-	<b>61,201</b>	<b>61,201</b>
Aviation		-	5,940	5,940
Geology		-	64,085	64,085
Travel		-	4,100	4,100
<b>Balance, December 31, 2018</b>	<b>\$</b>	-	<b>135,326</b>	<b>135,326</b>
Geology		-	22,384	22,384
Aviation		-	7,500	7,500
Land use and licenses		-	1,087	1,087
Travel		-	455	455
<b>Balance, December 31, 2019</b>	<b>\$</b>	-	<b>166,752</b>	<b>166,752</b>

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

<b>McArthur Creek Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>-</b>	<b>-</b>	<b>-</b>
Geology		3,826	-	3,826
Land use and licenses		4,120	-	4,120
Travel		290	-	290
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>8,236</b>	<b>-</b>	<b>8,236</b>
Geology		-	38,467	38,467
Aviation		-	6,389	6,389
Land use & licenses		-	20,834	20,834
Travel		-	27	27
<b>Balance, December 31, 2019</b>	<b>\$</b>	<b>8,236</b>	<b>65,717</b>	<b>73,953</b>

  

<b>GDR Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2017 and 2018</b>	<b>\$</b>	<b>-</b>	<b>-</b>	<b>-</b>
Cash Payment		18,000	-	18,000
Shares issued		60,750	-	60,750
Geology		-	43,582	43,582
Aviation		-	721	721
Travel		-	10,397	10,397
<b>Balance, December 31, 2019</b>	<b>\$</b>	<b>78,750</b>	<b>54,700</b>	<b>133,450</b>

  

<b>Flume Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>57,500</b>	<b>131,295</b>	<b>188,795</b>
Cash Payment		35,000	-	35,000
Shares issued		25,000	65,615	90,615
Geology		-	2,800	2,800
Travel		-	291	291
Write-off of exploration and evaluation assets		(117,500)	(200,001)	(317,501)
<b>Balance, December 31, 2018 and 2019</b>	<b>\$</b>	<b>-</b>	<b>-</b>	<b>-</b>

  

<b>Storck Property:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2017</b>	<b>\$</b>	<b>-</b>	<b>76,929</b>	<b>76,929</b>
Geology		-	1,000	1,000
Travel		-	145	145
Write-off of exploration and evaluation assets		-	(78,074)	(78,074)
<b>Balance, December 31, 2018 and 2019</b>	<b>\$</b>	<b>-</b>	<b>-</b>	<b>-</b>

  

<b>Total Exploration and Evaluation:</b>		<b>Acquisition Costs</b>	<b>Deferred Exploration</b>	<b>Total</b>
<b>Balance, December 31, 2018</b>	<b>\$</b>	<b>1,318,293</b>	<b>1,386,708</b>	<b>2,705,001</b>
<b>Balance, December 31, 2019</b>	<b>\$</b>	<b>2,087,529</b>	<b>2,037,723</b>	<b>4,125,252</b>

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

**Mojave Project**

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

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

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

In addition, following the exercise of its option, K2 has agreed to make an annual pre-production payment of US\$275,000 per year until the achievement of commercial production and to grant a 3% NSR with respect to all mineral produced from the Mojave Project, subject to a minimum annual royalty payment following commercial production of US\$300,000. The royalty will be subject to certain buy-down rights in K2's favour. K2 may terminate the Agreement at any time during the option period.

Subsequent to the signing of the option agreement, the Company paid \$127,813 (US\$ 96,089) for land taxes and \$31,410 (US\$ 23,586) for legal fees pursuant to Mojave's option agreement. The Company completed the first cash option payment of \$150,244 (US\$ 112,500) and issued 480,000 common shares at a price of \$0.325 pursuant to Mojave's option agreement with a fair value of \$156,000. In connection with the Mojave Project agreement, the Company issued 212,764 common shares at a price of \$0.325 with a fair value of \$69,148 as finders' fees (Note 6). Subsequent to year end the Company completed the second cash option payment of \$147,139 (US\$ 112,500) pursuant to Mojave's option agreement.

**Wels Property**

The Company signed a definitive option agreement with Go Metals Corp. "Go Metals" (formerly "Go Cobalt Mining Corp.") on August 11, 2016, subsequently amended October 21, 2016 option, to acquire a 90% joint venture interest (subject an existing 3% net smelter return) in certain mineral property interests located in the Yukon Territory, known as the "Wels Property". According to the agreement, to earn its interest, the Company made cash payments aggregating \$350,000 staged over 24 months and issued 3 million common shares staged over a 30-month period as follows:

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

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

\* Upon completion of the payments and share issuances, the Company and Go Metals will proceed under the terms of a joint venture agreement (the "Joint Venture"). Under the Joint Venture, the Company will fund the project fully through completion of a preliminary economic assessment, following which project expenditures will be funded on a 90/10 proportionate basis between the Company and Go Metals, respectively, with the Company acting as project manager and holding voting control of the Joint Venture project committee. If, at any time, either party's Joint Venture interest is diluted to less than 1% that diluted party's interest will be cancelled, and the Joint Venture will terminate.

The Wels property is subject to 3% net smelter return ("NSR") governed by a 2011 agreement between Go Metals and two arm's length holders. The royalty agreement provides that 2% of the 3% NSR may be purchased from the royalty holders for cash payment of \$1,500,000. Pursuant to the Option Agreement, the Company will pay the \$20,000 annual advance royalty due under the 2011 agreement. Pursuant to the option agreement a \$20,000 annual advance royalty was paid in 2019 (2018 - \$20,000).

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

During the year ended December 31, 2018, the Company issued a total of 1,000,000 common shares with a fair value of \$237,500 pursuant to the agreement.

**Ladue Property**

During the year ended December 31, 2019, the Company staked certain claims in the eastern Moosehorn Range area of the Yukon Territory known as the Ladue property.

**McArthur Creek Property**

During the year ended December 31, 2019, the Company staked several claims collectively known as the McArthur Creek Property located in Alaska, USA.

**GDR Property**

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

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

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

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

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

**Flume Property**

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

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

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

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

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

On August 23, 2018, the Company elected to terminate the Flume Property Option Agreement with Commander. As part of the first-year exploration expenditure requirements under the Agreement, the Company had a firm commitment to spend \$200,000 on the Flume property. This commitment was not met and to satisfy the remaining outstanding amount of \$65,615, the Company and Commander entered into an agreement whereby the Company issued 285,283 common shares with a fair value of \$71,321 to Commander on September 25, 2018, to settle this amount. The Company recorded a \$5,706 loss on debt settlement in connection with this transaction.

The Company has no further interest in the Flume Property, nor does it have any further obligations to Commander with respect to the Option Agreement.

**Storck Property**

During the year ended December 31, 2018, the Company decided to write-off the costs associated with the Storck Property as it is no longer of interest.

**6. Share Capital**

**a) Authorized Share Capital**

At December 31, 2019 and 2018, the authorized share capital comprised an unlimited number of common shares without par value.

**b) Issued Share Capital**

Transactions for the year ended December 31, 2019

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

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**6. Share Capital** (continued)

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

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

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

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

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

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

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

Transactions for the year ended December 31, 2018

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

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

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

In connection with this private placement, the Company issued 3,802,000 non-flow-through units (each, a "NFT Unit") at a price of \$0.25, consisting of one common share and one full common share purchase warrant entitling the holder to acquire one additional common share at a price \$0.37 per share for a period of twelve months.

The common share purchase warrants are subject to acceleration at the Company's discretion in the event the Company's common shares trade on a VWAP basis of \$0.60 or more for a period of ten consecutive trading days. The Company also issued 320,000 flow-through units (each, a "FT Unit") at a price of \$0.30, consisting of one common share and one-half-of-one common share purchase warrant entitling the holder to acquire one additional common share at a price \$0.45 per share for a period of twelve months.

The common share purchase warrants are subject to acceleration on the same terms as the NFT Unit warrants. A flow-through premium of \$16,000 was recorded was recorded in connection with the issuance of FT shares.

In connection with the financings completed in June 2018, the Company incurred cash share issue costs including finders' fees, legal, and other fees of \$35,010 in aggregate and non-cash share issue costs relating to the fair value

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**6. Share Capital** (continued)

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

of 136,200 finders' warrants issued of \$8,390. The finders' warrants value was calculated using a Black Scholes valuation model with the following assumptions: risk free rate of 1.89%, expected annual volatility of 103%, expected life of 1 year, expected dividend yield of 0%, and an exercise price of \$0.37 and \$0.45.

The net proceeds received from the NFT Units issued were allocated \$762,730 to share capital and \$187,770 to reserves based on their relative fair values.

The net proceeds received from the FT Unit issuance were allocated \$80,196 to share capital and \$15,804 to reserves based on their relative fair values.

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

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

**c) Warrants**

Details of outstanding warrants are as follows:	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, December 31, 2017	9,353,440	\$ 0.27
Issued – unit warrants	3,962,000	\$ 0.37
Issued – finders' warrants	136,200	\$ 0.37
Expired	(5,353,440)	\$ 0.38
Outstanding warrants, December 31, 2018	8,098,200	\$ 0.24
Issued – unit warrants	7,000,000	\$0.40
Exercised	(4,000,000)	\$0.10
Expired	(136,200)	\$0.37
Outstanding warrants, December 31, 2019	10,962,000	\$ 0.39

At December 31, 2019, the Company had outstanding warrants enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Number of Warrants	Weighted Remaining Contractual Life (in Years)
June 12, 2020	\$0.37	3,802,000	0.45
June 12, 2020	\$0.45	160,000	0.45
August 27, 2021	\$0.40	7,000,000	1.66
Weighted average exercise price and remaining contractual life	\$0.39	10,962,000	1.22

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

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

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**6. Share Capital (continued)**

**d) Stock Options**

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

During the year the company granted a total of 2,400,000 stock options. The details relating to the grants are listed below.

The changes in stock options issued are as follows:

	Number of stock options	Weighted Average Exercise Price
Outstanding, December 31, 2017	1,250,000	\$0.30
Cancelled	(20,000)	\$0.30
Outstanding December 31, 2018	1,230,000	\$0.30
Granted	2,400,000	\$0.27
Cancelled	(180,000)	\$0.30
Outstanding December 31, 2019	3,450,000	\$0.28

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

	December 31, 2019	December 31, 2018
Number of options granted	2,400,000	1,255,000
Risk-free interest rate	1.65%	1.02%
Expected annual volatility	98%	171%
Expected life	5 years	5 years
Expected dividend yield	0%	0%
Grant date fair value per option	\$0.19	\$0.32
Share price at grant date	\$0.27	\$0.34

At December 31, 2019, the Company had outstanding options enabling the holders to acquire common shares as follows:

Expiry Date	Options outstanding	Options exercisable	Exercise price	Weighted Remaining Contractual Life (in Years)
May 1, 2022	1,000,000	1,000,000	\$0.30	2.33
June 12, 2022	50,000	50,000	\$0.36	2.45
June 3, 2024	150,000	150,000	\$0.22	4.43
October 30, 2024	2,250,000	2,250,000	\$0.27	4.84
	3,450,000	3,450,000	\$0.28	4.06

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**7. Financial Instruments**

**a) Fair values**

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

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

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

**b) Credit risk**

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

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

**c) Liquidity risk**

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

**d) Market risk**

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

Investments in equity instruments which are classified as fair value through other comprehensive income and are measured at fair value, are listed on public stock exchanges, including TSX-V and OTC-QB. Recently, the markets have experienced extreme volatility. Therefore, sensitivity analysis is performed using 15%. For such investments, a 15% increase in equity prices as at December 31, 2019 would have increased investments in equity instruments by \$9,206. An equal change in the opposite direction would have had the equal but opposite effect on the amounts shown above. All equity instruments were sold subsequent to year end.

In the normal course of business, the Company enters into transactions for the purchase of supplies and services and acquisition of mineral properties, denominated in a currency other than the functional currency of the Company. As a result, the Company is subject to foreign exchange risk from fluctuations in foreign exchange rates, however Management estimates the risk to be insignificant. The Company has not entered into any derivative or other financial instruments to mitigate this foreign exchange risk. A 10% fluctuation in the US\$ against the Canadian dollar would affect profit or loss by approximately \$3,000 (2018 - \$1,800).

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**7. Financial Instruments (continued)**

**e) Capital Management**

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

The Company's policy is to maintain a strong capital base to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital and reserves, net of accumulated deficit.

The Company depends on external financing to fund its activities and may issue new equity instruments to maintain its capital structure. The Company manages its capital structure through the preparation of operating budgets, which are approved by the Board of Directors.

There were no changes in the Company's approach to capital management during the year ended December 31, 2019. The Company is not subject to any externally imposed capital requirements.

**8. Related Parties**

***Key management compensation***

Key management consists of the Company's directors and officers. In addition to management and consulting fees paid to these individuals, or companies controlled by these individuals, the Company provides non-cash benefits. Total key management compensation are as follows:

	Year ended December 31, 2019	Year ended December 31, 2018
Exploration and evaluation assets	\$ 38,840	\$ 59,181
Personnel	246,850	186,819
Share-based compensation	437,466	-
<b>Total</b>	<b>\$ 723,156</b>	<b>\$ 246,000</b>

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

	Year ended December 31, 2019	Year ended December 31, 2018
Office rent *	\$ 25,980	\$ -
Marketing and design *	12,000	-
<b>Total</b>	<b>\$ 37,980</b>	<b>\$ -</b>

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

The balance payable to related parties at December 31, 2019 was \$4,002 (December 31, 2018 - \$Nil). These payables are generally unsecured, non-interest bearing and are expected to be repaid under normal trade terms.

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

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**9. Income Taxes**

**Current Income Taxes**

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

	<b>2019</b>	<b>2018</b>
Loss for the year	\$ (1,031,919)	\$ (1,005,957)
A reconciliation of income taxes at Canadian statutory rate of:	27.00%	27.00%
Expected income tax recovery	(279,000)	(272,000)
Change in statutory rate and other	-	19,000
Permanent and other differences	129,000	(3,000)
Impact of flow-through shares	-	26,000
Share issue costs	(5,000)	(9,000)
Adjustment to prior years provision versus statutory returns	(26,000)	-
Change in unrecognized deductible differences	181,000	239,000
Income tax expense (recovery)	\$ -	\$ -

At December 31, 2019, the Company had estimated net operating losses carried forward of approximately \$5,245,000 in Canada (2018 - \$4,660,000) (expiring in 2031 to 2039) available to reduce future taxable income.

In addition to its loss carry-forwards, the Company has deductible temporary differences of approximately \$6,782,000 (2018 - \$6,688,000) relating primarily to exploration and evaluation costs, available to reduce future taxable income. Tax attributes are subject to review and potential adjustment by tax authorities.

**10. Commitments**

a) Lease

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

The future rental payments are required as follows:

<b>2020</b>	<b>\$25,980</b>
<b>2021</b>	<b>\$8,660</b>

**11. Segment Information**

The Company operates in one reportable segment, being the acquisition, exploration and evaluation of mineral resources. The Company's and exploration and evaluation assets totalling \$4,125,252 are located in Canada \$3,156,039 (2018 - \$2,696,765) and the United States \$969,213 (2018 - \$8,236).