

K2 Gold Corporation

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2021 AND 2020

In Canadian Dollars

Notice of Non-review of Condensed Interim Consolidated Financial Statements

In accordance with National Instrument 51-102, the Company discloses that the accompanying condensed interim consolidated financial statements have been prepared by and are the responsibility of the Company's management. They have been reviewed and approved by the Company's Audit Committee and the Board of Directors.

The attached condensed interim consolidated financial statements for the six months ended June 30, 2021 have not been reviewed by the Company's auditors.

K2 Gold Corporation
Condensed Interim Consolidated Statements of Financial Position
For the Six Months Ended June 30, 2021 and 2020
(Amounts are expressed in Canadian Dollars)

	Note	June 30, 2021	December 31, 2020
Assets			
Current Assets			
Cash and cash equivalents		\$ 4,634,263	\$ 7,404,497
Amounts receivable		25,550	21,811
Prepaid expenses		64,903	161,855
		4,724,716	7,588,163
Exploration and evaluation assets	5,10	9,397,508	7,772,113
Reclamation Bond	5	61,970	63,660
TOTAL ASSETS		\$ 14,184,194	\$ 15,423,936
Liabilities and Shareholders' Equity			
Current Liabilities			
Accounts payable and accrued liabilities	10	\$ 139,661	\$ 317,712
Long Term Liabilities			
CEBA Loan	9	40,000	40,000
		179,661	357,712
Shareholders' Equity			
Share capital	6	26,593,673	26,487,173
Obligation to issue shares	6	-	106,500
Reserves	6	5,859,354	5,774,401
Deficit		(18,448,494)	(17,301,850)
		14,004,533	15,066,224
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$ 14,184,194	\$ 15,423,936

Nature of operations and going concern (Note 1)
 Commitments (Note 11)
 Subsequent Event (Note 13)

Approved on behalf of the Board of Directors on August 27, 2021

"Stephen Swatton", Director

"Craig Roberts", Director

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

K2 Gold Corporation
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the Six Months Ended June 30, 2021 and 2020
(Amounts are expressed in Canadian Dollars)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Expenses				
Advertising, marketing and promotion	\$ 63,585	\$ 40,012	\$ 202,497	\$ 59,825
Consulting	-	-	10,000	-
Corporate listing and filing fees	8,375	6,047	52,555	14,482
Office and administration	27,463	9,768	72,614	30,922
Personnel	116,356	83,491	333,573	158,746
Professional fees	28,891	34,021	48,437	116,257
Rent	15,210	8,096	20,982	16,331
Share-based compensation	84,951	31,253	84,951	31,253
Travel and conferences	746	5,581	9,533	29,760
Loss Before the Undernoted	(345,577)	(218,269)	(835,142)	(457,576)
Other Income (Expenses)				
Interest income	9,774	3,266	22,622	16,248
Realized gain on investments	-	-	-	62,643
Write-off exploration and evaluation assets	-	-	(9,000)	-
Foreign Exchange Adjustment	(325,124)	-	(325,124)	-
Loss for the Period	(660,927)	(215,003)	(1,146,644)	(378,685)
Comprehensive Loss for the Period	\$ (660,927)	\$ (215,003)	(1,146,644)	(378,685)
Loss per share – basic and diluted	\$ (0.010)	\$ (0.01)	(0.018)	(0.01)
Weighted average number of common shares outstanding	64,368,634	44,234,129	64,353,717	44,140,381

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

K2 Gold Corporation
Condensed Interim Consolidated Statements of Cash Flows
For the Six Months Ended June 30, 2021 and 2020
(Amounts are expressed in Canadian Dollars)

Cash Provided By (Used In):	2021	2020
Operating activities:		
Net loss for the year	\$ (1,146,644)	\$ (378,685)
Items not involving cash:		
Realized gain on investments	-	(62,643)
Share-based compensation	84,951	31,253
Write-off exploration and evaluation assets	9,000	-
Change in non-cash working capital items:		
Accounts receivable	(3,739)	8,286
Prepaid expenses	96,952	(13,761)
Accounts payable and accrued liabilities	(88,388)	(269,221)
	(1,047,868)	(684,770)
Investing activities:		
Reclamation bond	1,690	-
Exploration and evaluation expenditures	(1,724,055)	(927,235)
	(1,722,365)	(927,235)
Financing activities:		
Proceeds from sale of marketable securities	-	73,681
Proceeds from warrants exercised	-	285,640
Proceeds from CEBA loan	-	40,000
	-	399,321
Net increase in cash and cash equivalents	(2,770,233)	(1,212,684)
Cash and cash equivalents, beginning of year	7,404,497	2,880,811
Cash and cash equivalents, end of year	\$ 4,634,264	\$ 1,668,127

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

K2 Gold Corporation**Condensed Interim Consolidated Statement of Changes in Shareholders' Equity****For the Six Months Ended June 30, 2021 and 2020***(Amounts are expressed in Canadian Dollars)*

	Share Capital		Obligation to issue shares	Reserves	Accumulated Other Comprehensive Income	Deficit	Total
	Number of Shares	Amount					
Balance, December 31, 2019	44,046,634	\$ 18,063,244	\$ -	\$ 4,289,640	\$ 50,335	\$ (15,567,985)	\$ 6,835,234
Sale of marketable securities	-	-	-	-	(50,335)	-	(50,335)
Warrants Exercised	772,000	285,640	-	-	-	-	285,640
Reclass of contributed surplus	-	39,956	-	(39,956)	-	-	-
Share-based compensation	-	-	-	31,253	-	-	31,253
Loss for the period	-	-	-	-	-	(378,685)	(378,685)
Balance, June 30, 2020	44,818,634	\$ 18,388,480	\$ -	\$ 4,281,298	\$ -	\$ (15,946,670)	\$ 6,723,108
Balance December 31, 2020	64,218,634	\$ 26,487,173	\$ 106,500	\$ 5,774,401	\$ -	\$ (17,301,850)	\$ 15,066,224
Shares issued to property vendors	150,000	106,500	(106,500)	-	-	-	-
Share based compensation	-	-	-	84,951	-	-	84,951
Loss for the period	-	-	-	-	-	(1,146,644)	(1,146,644)
Balance, June 30, 2021	64,368,634	\$ 26,593,673	\$ -	\$ 5,859,354	\$ -	\$ (18,448,494)	\$ 14,004,533

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

K2 Gold Corporation

(An Exploration Stage Company)

Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2021 and 2020

(Amounts are expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

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

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

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

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to continue its operation as a going concern for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. At June 30, 2021, the Company had not achieved profitable operations and had an accumulated deficit. These material uncertainties may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

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

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

2. Basis of Presentation

a) Statement of Compliance

These condensed interim 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 condensed interim consolidated financial statements have been prepared using interpretations issued by the International Financial Reporting Interpretation Committee (“IFRIC”) in effect at June 30, 2021 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 August 27, 2021.

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.

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Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2021 and 2020

(Amounts are expressed in Canadian Dollars)

2. Basis of Presentation (continued)

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

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

d) Basis of consolidation:

These condensed interim consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries K2 Gold Alaska, Inc. ("K2 Gold Alaska") and Mojave Precious Metals Inc. ("Mojave Precious Metals"). The financial statements of K2 Gold Alaska and Mojave Precious Metals are included in the condensed interim 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.

3. Significant Accounting Policies

Critical accounting judgments, estimates and assumptions

The preparation of these condensed interim consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amount of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods.

These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are noted below with further details of the assumptions contained in the relevant note.

The preparation of these condensed interim consolidated financial statements requires management to make judgments regarding the going concern of the Company as discussed in Note 1.

Key sources of estimation uncertainty

Exploration and evaluation assets

Exploration and evaluation costs are initially capitalized as intangible exploration assets with the intent to establish commercially viable reserves. The Company is required to make estimates and judgments about the future events and circumstances regarding whether the carrying amount of intangible exploration assets exceeds its recoverable amount.

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Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2021 and 2020

(Amounts are expressed in Canadian Dollars)

3. Significant Accounting Policies (continued)

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 development and upon future profitable production or proceeds from the disposition of the exploration and evaluation assets 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 properties or the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

Deferred tax assets and liabilities

The measurement of a 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 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 would be required to recognize more or fewer deferred tax assets, and future tax provisions or recoveries could be affected.

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.

New and revised standards and interpretations

The accounting policies in preparation of these condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's audited consolidated financial statements for the year ended December 31, 2020.

4. Marketable Securities

On July 17, 2015, the Company entered into a debt settlement agreement with Bluestone Resources Inc. and received 44,153 of Bluestone common shares.

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

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

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(An Exploration Stage Company)

Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2021 and 2020

(Amounts are expressed in Canadian Dollars)

5. Exploration and Evaluation Assets

Mojave Property:	Acquisition Costs	Deferred Exploration	Total
Balance, December 31, 2019	\$ 542,986	352,274	895,260
Cash Payment	316,964	-	316,964
Legal	164,876	-	164,876
Shares issued	244,800	-	244,800
Geology	-	1,425,597	1,425,597
Aviation	-	407,501	407,501
Land use & Licenses	-	170,574	170,574
Community Relations	-	97,500	97,500
Permitting	-	601,666	601,666
Monitoring	-	30,582	30,582
Travel	-	357,364	357,364
Balance, December 31, 2020	\$ 1,269,629	3,443,058	4,712,684
Cash Payment	157,471	-	160,775
Staking	30,987	-	39,987
Shares issued	-	-	-
Geology	-	944,810	944,810
Aviation	-	27,135	27,135
Land use & Licenses	-	288,387	288,387
Community Relations	-	211,496	211,496
Permitting	-	94,965	94,965
Legal Permitting	-	49,071	49,071
Travel	-	133,639	133,639
Foreign Exchange Movements	-	(317,818)	(317,818)
Balance, June 30, 2021	\$ 1,458,087	4,874,742	6,332,829

Wels Property:	Acquisition Costs	Deferred Exploration	Total
Balance, December 31, 2019	\$ 1,457,557	1,398,280	2,855,837
Advanced royalty payment	20,000	-	20,000
Community relations	-	100	100
Geology	-	16,740	16,740
Balance, December 31, 2020	\$ 1,477,557	1,415,120	2,892,677
Geology	-	5,250	5,250
Balance, June 30, 2021	\$ 1,477,557	1,420,370	2,897,927

Ladue Property:	Acquisition Costs	Deferred Exploration	Total
Balance, December 31, 2019	\$ -	166,752	166,752
Balance, December 31, 2020 and June 30, 2021	\$ -	166,752	166,752

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Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2021 and 2020

(Amounts are expressed in Canadian Dollars)

5. Exploration and Evaluation Assets (continued)

McArthur Creek Property:		Acquisition Costs	Deferred Exploration	Total
Balance, December 31, 2019	\$	8,236	65,717	73,953
Write off Mineral Property		(8,236)	(65,517)	(73,953)
Balance, December 31, 2020	\$	-	-	-
Balance, June 30, 2021	\$	-	-	-

GDR Property:		Acquisition Costs	Deferred Exploration	Total
Balance, December 31, 2019	\$	78,750	54,700	133,450
Shares issued		106,500	-	106,500
Geology		-	1,800	1,800
Community Relations		-	100	100
Write off Mineral Property		(185,250)	(56,600)	(241,850)
Balance, December 31, 2020	\$	-	-	-
Cash payment		-	9,000	9,000
Write off Mineral Property		-	(9,000)	(9,000)
Balance, June 30, 2021	\$	-	-	-

Total Exploration and Evaluation:		Acquisition Costs	Deferred Exploration	Total
Balance, December 31, 2020	\$	2,747,183	5,024,930	7,772,113
Balance, June 30, 2021	\$	2,935,644	6,461,864	9,397,508

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 (paid)	480,000 (issued)
18-months from the effective date		125,000 (paid)	
24-months from the effective date		150,000 (paid)	480,000 (issued)
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
Total	US\$	1,400,000	2,400,000

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.

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Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2021 and 2020

(Amounts are expressed in Canadian Dollars)

5. Exploration and Evaluation Assets (continued)

Mojave Project (continued)

On January 9, 2020, the Company completed the second cash option payment of \$147,139 (US\$ 112,500) pursuant to Mojave Project option agreement. On July 3, 2020, the Company completed the third cash option payment of \$169,825 (US\$125,000) and issued 480,000 common shares at a price of \$0.51 with a fair value of \$244,800 pursuant to Mojave Project option agreement. In January, 2021, the Company completed the fourth cash payment of \$160,775 (US\$125,000). In July of 2021, the Company completed the fifth cash payment of \$185,295 (US\$150,000) and issued 480,000 common shares at a price of \$0.35 with a fair value of \$168,000 Pursuant to the Mojave Project option agreement.

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

In August 2020, the Company was required to post a bond in the amount of \$61,970 (\$50,000 USD) with the Bureau of Land Management (“BLM”) for reclamation work associated with the Mojave Property.

Wels Property

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

	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)
Total	\$	350,000	3,000,000	*

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

The Wels property is subject to 3% net smelter return (“NSR”) governed by a 2011 agreement between Go Metals and two arm’s length holders. The royalty agreement provides that 2% of the 3% NSR may be purchased from the royalty holders for cash payment of \$1,500,000. Pursuant to the Option Agreement, the Company will pay the \$20,000 annual advance royalty due under the 2011 agreement. Pursuant to the option agreement a \$20,000 annual advance royalty was paid in 2020 (2019 - \$20,000).

K2 Gold Corporation

(An Exploration Stage Company)

Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2021 and 2020

(Amounts are expressed in Canadian Dollars)

5. Exploration and Evaluation Assets (continued)

Ladue Property

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

McArthur Creek Property

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

GDR Property

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

The Company abandoned the GDR Property Option on December 29, 2020. The Company paid the three vendors \$9,000 in total to cover claims costs. In addition, the Company also granted the three vendors 50,000 shares each for a total of 150,000 shares at a price of \$0.71 with a fair value of \$106,500, this amount is included as an obligation to issue shares at December 31, 2020 (Note 6b). The GDR property was written down to a value of \$nil as at December 31, 2020. The \$9,000 payment was paid in Q1 2021 and a was written down to zero in Q1.

6. Share Capital

a) Authorized Share Capital

At June 30, 2021 and 2020, the authorized share capital comprised an unlimited number of common shares without par value.

b) Issued Share Capital

Transactions for the six months ended June, 30, 2021

The Company granted the three GDR property vendors 50,000 shares each on January 18, 2021, for a total of 150,000 shares at a price of \$0.71 with a fair value of \$106,500, this amount was included as an obligation to issue shares at December 31, 2020 (Note 5). The GDR property was written down to a value of \$nil as at December 31, 2020.

Subsequent to quarter end on July 6, 2021, the Company issued 480,000 common shares with a fair value of \$168,000 pursuant to the Mojave option agreement (Note 5).

Transactions for the year ended December 31, 2020

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

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

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

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(An Exploration Stage Company)

Notes to the Condensed Interim Consolidated Financial Statements

For the Six Months Ended June 30, 2021 and 2020

(Amounts are expressed in Canadian Dollars)

6. Share Capital (continued)

b) Issued Share Capital (continued)

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

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

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

c) Warrants

The warrants activity are summarized below:

Details of outstanding warrants are as follows:	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, December 31, 2019	10,962,000	\$ 0.39
Issued – unit warrants	6,250,000	\$ 0.75
Exercised	(7,077,000)	\$ 0.40
Expired	(3,885,000)	\$ 0.38
Outstanding warrants, December 31, 2020	6,250,000	\$ 0.75
Outstanding warrants, June 30, 2021	6,250,000	\$ 0.75

At June 30, 2021, the Company had outstanding warrants enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Number of Warrants	Weighted Remaining Contractual Life (in Years)
December 30, 2022	\$0.75	6,250,000	1.50
Weighted average exercise price and remaining contractual life	\$0.75	6,250,000	1.50

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

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

d) Stock Options

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

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6. Share Capital (continued)

d) Options (continued)

day immediately preceding the day on which the option is granted, less the maximum applicable discount permitted by the Exchange.

On May 13, 2021 the Company announced that it had granted incentive stock options to certain directors, officers, and consultants of the Company to purchase up to an aggregate 1,380,000 common shares in the capital stock of the Company. The stock options are exercisable at a price of \$0.32 per share, for a period of five years from the date of grant and will vest 25% on the date of grant and thereafter 25% every three months until fully vested.

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

The changes in stock options issued are as follows:

	Number of stock options	Weighted Average Exercise Price
Outstanding, December 31, 2019	3,450,000	\$0.28
Exercised	(115,000)	\$0.29
Granted	1,528,565	\$0.55
Outstanding December 31, 2020	4,863,565	\$0.36
Granted	1,380,000	\$0.32
Outstanding June 30, 2021	6,243,565	\$0.35

Share-based compensation relating to options vested during the six months ended June 30, 2021 using the Black-Scholes option pricing model was \$84,951 (2020: \$351,808), which was recorded as reserves on the statements of financial position and as share-based compensation expense on the statement of loss and comprehensive loss.

The estimated grant date fair value of the options granted during 2020 and 2021 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

	December 31, 2020	June 30, 2021	Broker compensation options (Note 6b)
Number of options granted	800,000	1,380,000	728,565
Risk-free interest rate	0.35% - 1.33%	0.94%	0.20%
Expected annual volatility	90% - 122%	113%	121%
Expected life	5 years	5 years	2 years
Expected dividend yield	0%	0%	0%
Grant date fair value per option	0.16 - 0.59	0.24624	0.45
Share price at grant date	0.23 - 0.71	0.31	0.69

As at June 30, 2021, the Company had outstanding options enabling the holders to acquire common shares as follows:

Expiry Date	Options outstanding	Options exercisable	Exercise price	Weighted Remaining Contractual Life (in Years)
May 1, 2022	935,000	935,000	\$0.30	0.84
June 12, 2022	50,000	50,000	\$0.36	0.95
June 3, 2024	150,000	150,000	\$0.22	2.93
October 30, 2024	2,200,000	2,200,000	\$0.27	3.33
February 20, 2025	200,000	200,000	\$0.23	3.65
July 2, 2025	150,000	150,000	\$0.42	4.01
September 28, 2025	450,000	450,000	\$0.71	4.25
December 30, 2022	728,565	728,565	\$0.56	1.50
May 13, 2026	1,380,000	345,000	\$0.32	4.87
	6,243,565	5,208,565	\$0.35	3.15

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7. Financial Instruments

a) Fair values

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

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

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

b) Credit risk

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

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

c) Liquidity risk

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

d) Market risk

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

Investments in equity instruments which are classified as fair value through other comprehensive income and are measured at fair value, are listed on public stock exchanges, including TSX-V and OTC-QB.. All equity instruments were sold during the year.

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

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7. Financial Instruments (continued)

e) Price risk

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

8. Capital Management

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

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

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

There were no changes in the Company's approach to capital management during the six months ended June 30, 2021. The Company is not subject to any externally imposed capital requirements.

9. CEBA loan

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

Terms of the CEBA agreement:

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

The balance at June 30, 2021 was \$40,000 (2020: \$40,000).

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10. Related Parties

Key management compensation

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

	Six months ended June 30, 2021	Six months ended June 30, 2020
Exploration and evaluation assets	\$ 291,525	\$ 83,250
Personnel	211,049	117,750
Share based compensation	60,637	-
Total	\$ 563,211	\$ 201,000

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

	Six months ended June 30, 2021	Six months ended June 30, 2020
Office rent *	\$ 20,982	\$ 16,331
Marketing and design *	10,500	8,250
Total	\$ 31,482	\$ 24,581

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

The balance payable to related parties at June 30, 2021 was \$33,590 (December 31, 2020 - \$1,479). These payables are generally unsecured, non-interest bearing and are expected to be repaid under normal trade terms.

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

11. Commitments

a) Lease

The Company entered into a lease agreement with a company related to key management to rent an office space commencing May 1, 2018 to April 29, 2021 for \$2,165 per month. In addition to the monthly rental payments, the Company is charged for the applicable GST costs. A new lease commenced on May 1st, 2021 to April 29, 2024 for \$3,817.50 per month. The Company is also charged for the applicable GST costs for the new lease.

The future rental payments are required as follows:

2021	\$39,200
2022	\$45,810
2023	\$45,810
2024	\$15,270

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12. Segment Information

The Company operates in one reportable segment, being the acquisition, exploration and evaluation of mineral resources.

13. Subsequent Event

On August 11, 2021 the Company announced that it had signed an option agreement (the "Agreement") to acquire a 100% interest in the Cerro Gordo Gold Project or "Cerro Gordo Project", located adjacent to the Company's Mojave Project in Inyo County, California.

The terms of the option agreement are as follows:

The Company can earn a 100% interest in the Cerro Gordo Project by paying an aggregate of US\$625,000 over a period of five years as follows: (i) US\$10,000 on signing, (ii) US\$40,000 after a 60-day due diligence period (the "Closing Date"), (iii) US\$25,000 on or before the six-month anniversary of the Closing Date, (iv) US\$75,000 on or before the first anniversary of the Closing Date, (v) US\$75,000 on or before the third anniversary of the Closing Date, (vi) US\$75,000 on or before the fourth anniversary of the Closing Date, (vii) US\$250,000 on or before the fifth anniversary of the Closing Date. In addition, a bonus payment of US\$500,000 is payable following the completion of a Bankable Feasibility Study.

The Company has agreed to expend a minimum of US\$25,000 annually on exploration, development, and mining work on the Cerro Gordo claims, for an aggregate amount of at least US\$100,000 over a four-year period. In addition, K2 has granted the vendor a 3% net smelter returns royalty ("NSR") with respect to all mineral produced from the Cerro Gordo Project. The Company can repurchase half of the NSR for US\$1,000,000.

The Company may terminate the Agreement at any time during the option period. The Agreement is subject to the acceptance of the TSXV.