K2 Gold Corporation

(Formerly “West Melville Metals Inc.”)

(An Exploration Stage Company)

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015

In Canadian Dollars

Unaudited – Prepared by Management

Notice of Non-review of Condensed Consolidated Interim Financial Statements

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed consolidated interim financial statements they must be accompanied by a notice indicating that these condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

K2 Gold Corporation (formerly "West Melville Metals Inc.")
(An Exploration Stage Company)
Condensed Consolidated Statements of Financial Position
(Amounts are expressed in Canadian Dollars)
Unaudited – Prepared by Management

		September 30, 2016 (Unaudited)		December 31, 2015 (Audited)
Assets				
Current Assets				
Cash	$	646,253	$	2,145
GST recoverable		6,579		329
Prepaid expenses		137,046		1,444
Marketable securities (Note 8)		30,907		13,246
Deferred financing costs (Note 11)		5,307		-
		826,092		17,164
Exploration and Evaluation assets (Note 5)		56,061		-
TOTAL ASSETS	$	882,153	$	17,164
Liabilities and Shareholders' Equity				
Current Liabilities				
Accounts payable and accrued liabilities (Note 10)	$	211,442	$	147,457
Promissory notes payable (Note 7)		97,104		61,876
Share subscriptions received (Note 11)		632,250		-
		940,796		209,333
Shareholders' Equity (Deficit)				
Share capital (Note 6)		9,963,420		9,832,270
Reserves (Notes 6)		2,134,411		2,022,411
Accumulated other comprehensive income		19,869		2,208
Deficit		(12,176,343)		(12,049,058)
		(58,643)		(192,169)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	$	882,153	$	17,164

Nature of operations and going concern *(Note 1)*
Subsequent event (*Note 11)*

APPROVED ON BEHALF OF THE BOARD:

"Stephen Swatton", Director

"John Robins", Director

- The accompanying notes are an integral part of these financial statements -

K2 Gold Corporation (formerly "West Melville Metals Inc.")

(An Exploration Stage Company)

Condensed Consolidated Statements of Comprehensive Loss

(Amounts are expressed in Canadian Dollars)

Unaudited – Prepared by Management

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Expenses				
Advertising and promotion	$ 2,123	$ 897	$ 3,917	$ 3,245
Consulting	-	-	-	400
Corporate listing and filing fees	3,245	3,440	23,357	23,912
Depreciation (Note 4)	-	-	-	4,977
Interest expense (Note 7)	1,815	971	5,228	971
Office and administration	7,816	1,264	11,619	5,124
Personnel	6,250	1,499	40,250	10,827
Project evaluation (Note 5)	4,856	-	4,856	9,710
Professional fees	18,757	-	23,133	21,690
Rent	4,833	-	4,833	(2,742)
Share-based compensation	-	-	7,200	-
Travel and conferences	2,327	-	2,327	2,309
Loss before the undernoted	(52,022)	(8,071)	(126,720)	(80,423)
Other Income (Expenses)				
Interest income	-	-	-	57
Permit extension expense (Note 5)	-	-	(1,470)	-
Recovery of accounts payable and accrued liabilities	-	-	905	-
Write-off of equipment	-	-	-	(20,943)
Loss for the Period	$ (52,022)	$ (8,071)	$ (127,285)	$ (101,309)
Unrealized gain (loss) on marketable securities (Note 8)	2,208	6,623	17,661	6,623
Comprehensive Loss for the Period	$ (49,814)	$ (1,448)	$ (109,624)	$ (94,686)
Loss per share – basic and diluted	$ (0.01)	$ (0.03)	$ (0.05)	$ (0.07)
Weighted average number of common shares outstanding	5,405,137	1,315,137	2,746,822	1,315,137

K2 Gold Corporation (formerly "West Melville Metals Inc.")
(An Exploration Stage Company)
Condensed Consolidated Statement of Changes in Equity
(Amounts are expressed in Canadian Dollars)
Unaudited – Prepared by Management

	Share Capital					
	Shares	Amount $	Reserves $	Accumulated Other Comprehensive Income $	Deficit $	Total $
Balance, December 31, 2014	1,315,137	9,832,270	2,022,411	-	(9,092,745)	2,761,936
Unrealized gain on marketable securities	-	-	-	6,623	-	6,623
Loss for the period	-	-	-	-	(101,309)	(101,309)
Balance, September 30, 2015	1,315,137	9,832,270	2,022,411	6,623	(9,194,054)	2,667,250
Unrealized gain on marketable securities	-	-	-	(4,415)	-	(4,415)
Loss for the period	-	-	-	-	(2,855,004)	(2,855,004)
Balance, December 31, 2015	1,315,137	9,832,270	2,022,411	2,208	(12,049,058)	(192,169)
Private placement	4,000,000	240,000	-	-	-	240,000
Share issue costs	-	(4,050)	-	-	-	(4,050)
Fair value of warrants	-	(112,000)	112,000	-	-	-
Bonus shares issued	90,000	7,200	-	-	-	7,200
Unrealized gain on marketable securities	-	-	-	17,661	-	17,661
Loss for the period	-	-	-	-	(127,285)	(127,285)
Balance, September 30, 2016	5,405,137	9,963,420	2,134,411	19,869	(12,176,343)	(58,643)

K2 Gold Corporation (formerly "West Melville Metals Inc.")
(An Exploration Stage Company)
Condensed Consolidated Statements of Cash Flows
(Amounts are expressed in Canadian Dollars)
Unaudited – Prepared by Management

Cash Provided By (Used In):		Nine months ended September 30, 2016		Nine months ended September 30, 2015
Operations:				
Loss for the period	$	(127,285)	$	(101,309)
Items not affecting cash:				
Depreciation		-		4,977
Interest income		-		(57)
Interest expense		5,228		971
Share-based compensation		7,200		-
Write-off of equipment		-		20,943
Change in non-cash working capital:				
GST recoverable		(6,250)		2,668
Prepaid expenses		(135,602)		(307)
Deferred financing costs		(5,307)		-
Accounts payable and accrued liabilities		16,228		21,081
		(245,788)		(51,033)
Interest received		-		57
Interest paid		-		(305)
		(245,788)		(51,281)
Investing:				
Exploration and evaluation expenditures		(8,304)		(49,753)
Financing:				
Proceeds from issuance of shares		240,000		-
Share issue costs		(4,050)		-
Share subscriptions received		632,250		
Proceeds from loans		30,000		60,000
		898,200		60,000
Net increase (decrease) in cash		644,108		(41,034)
Cash - beginning of period		2,145		59,604
Cash - end of period	$	646,253	$	18,570

Supplementary Schedule of Non-Cash Investing Activities

Change in accounts payable related to exploration and evaluation assets	$	5,107	$	-

1. Nature of Operations and Going Concern

K2 Gold Corporation (“K2 Gold” or the “Company”) (formerly “West Melville Metals Inc.”) was incorporated on May 3, 2011, pursuant to the Business Corporations Act of British Columbia, Canada. On November 2, 2016, the Company changed its name from West Melville Metals Inc. to K2 Gold Corporation. The Company’s head office is located at Suite 1430 – 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 its 90% option to the Wels Gold Property located in the Yukon Territory.

These consolidated interim 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 September 30, 2016, 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 interim 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.

2. Basis of Presentation

a) Statement of compliance

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards (“IAS”) 34 ‘Interim Financial Reporting’ (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

b) Approval of the financial statements

These consolidated condensed interim financial statements were approved and authorized for issue by the Board of Directors on November 28, 2016.

c) Basis of consolidation

During the year ended December 31, 2015, the Company wound up its two wholly owned inactive subsidiaries Isortoq Holdings and Thule Holdings. These financial statements include the accounts of the Company’s wholly owned subsidiaries until September 30, 2015. All intercompany balances and transactions have been eliminated upon consolidation.

2. Basis of Presentation – *Continued*

d) 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 financial statements.

These consolidated interim financial statements are presented in Canadian dollars, which is the Company's presentation and functional currency. The functional currencies of the Company's subsidiaries do not differ from that of the parent company.

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.

e) Significant Accounting Policies

These unaudited condensed interim financial statements do not include all of the significant accounting policies required by IFRS for complete financial statements for year-end reporting purposes. These financial statements should be read together with the audited financial statements for the year ended December 31, 2015 which in Note 3 detail all significant accounting policies adopted by the Company.

The Company's accounting policies have been applied consistently to all periods presented in these unaudited condensed interim financial statements.

f) Critical Accounting Judgments and Estimates

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.

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.

2. Basis of Presentation – *Continued*

f) Critical Accounting Judgments and Estimates – Continued

Key Sources of Estimation Uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting the Company’s consolidated financial statements include:

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.

Useful life of equipment

Each significant component of an item of equipment is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, and the potential for technological obsolescence.

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.

(Amounts are expressed in Canadian Dollars)

3. Recent Accounting Pronouncements

Recent Accounting Pronouncements adopted:

IFRS 11 Accounting for Acquisitions of Interests in Joint Operations ("IFRS 11") has been amended to provide specific guidance on accounting for the acquisition of an interest in a joint operation that is a business. IFRS 11 is effective on or after January 1, 2016. There is no effect on these financial statements.

IFRS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization ("IFRS 16 and IAS 38") have been amended to (i) clarify that the use of a revenue-based depreciation and amortization method is not appropriate, and (ii) provide a rebuttable presumption for intangible assets. IFRS 16 and IAS 38 are effective on or after January 1, 2016. There is no effect on these financial statements.

Recent Accounting Pronouncements not yet applied:

IFRS 9 Financial Instruments ("IFRS 9") partially replaces IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39.The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective on or after January 1, 2018.

4. Equipment

	Furniture and Fixtures	Computer Hardware	Field Equipment	Leasehold Improvements	Total
Cost					
Balance, December 31, 2014	$ 32,314	$ 3,149	$ 1,874	$ 29,256	$ 66,593
Current year retirements	(32,314)	(3,149)	(1,874)	(29,256)	(66,593)
Balance, December 31, 2015 and September 30, 2016	$ -	$ -	$ -	$ -	$ -
Accumulated depreciation					
Balance, December 31, 2014	$ 16,796	$ 2,258	$ 874	$ 20,745	$ 40,673
Current year retirements	(18,348)	(2,391)	(974)	(23,937)	(45,650)
Depreciation	1,552	133	100	3,192	4,977
Balance, December 31, 2015 and September 30, 2016	$ -	$ -	$ -	$ -	$ -
Carrying Value					
At December, 31, 2015	$ -	$ -	$ -	$ -	$ -
At September 30, 2016	$ -	$ -	$ -	$ -	$ -

(Amounts are expressed in Canadian Dollars)

5. Exploration and Evaluation Assets

Summary of Acquisition and Deferred Exploration Costs

	Acquisition Costs $	Deferred Exploration $	Total $
Isortoq Property:			
Balance, December 31, 2014	2,339,778	346,539	2,686,317
Claims and staking	-	39,153	39,153
Field work	-	10,600	10,600
Write-offs	(2,339,778)	(396,292)	(2,736,070)
Balance, December 31, 2015 and September 30, 2016	-	-	-

	Acquisition Costs $	Deferred Exploration $	Total $
Wels Property:			
Balance, December 31, 2015	-	-	-
Legal	42,650	-	42,650
Geological consulting	-	7,417	7,417
Environmental	-	5,107	5,107
Land use and licenses	-	278	278
Travel	-	609	609
Balance, September 30, 2016	42,650	13,411	56,061

Isortoq Property

The Isortoq Property is located in south Greenland and consists of two licenses issued by the Greenland Bureau of Minerals and Petroleum (the "Licenses"). The Company owns 100% of the Isortoq Property clear of any third party royalties. The Isortoq Property contains a mineralized geological feature that is being evaluated for its potential to host an economic deposit of iron, titanium and vanadium.

The Company determined it will not conduct further exploration on the Isortoq property at this time and therefore, total acquisition costs of $2,736,070 were written down to $Nil.

(Amounts are expressed in Canadian Dollars)

5. Exploration and Evaluation Assets – *Continued*

Wels Property

The Company signed a definitive option agreement with Gorilla Minerals Corp. ("Gorilla") on August 11, 2016 and amended October 21, 2016 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, the Company will make cash payments aggregating $350,000 staged over 24 months and issue 3 million common shares staged over a 30-month period as follows:

		Cash option payments	Issuance of common shares
Within 5 days after date of TSX Venture Exchange's approval of the agreement*	$	50,000	500,000
On or before September 30, 2016*		100,000	-
On or before February 11, 2017		-	500,000
On or before August 11, 2017		100,000	500,000
On or before February 11, 2018		-	500,000
On or before August 11, 2018		100,000	500,000
On or before February 11, 2019		60,000	500,000
Total	$	350,000	3,000,000

* TSX Venture Exchange's approval was received on October 16, 2016. The option payments were paid and common shares were issued subsequent to September 30, 2016

Upon completion of the payments and share issuances, the Company and Gorilla 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 Gorilla, 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 1.0%, that diluted party's interest will be cancelled and the Joint Venture will terminate.

The existing 3% net smelter return ("NSR") is governed by a 2011 agreement between Gorilla 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.

Fraser Bay Option Agreement

The Fraser Bay Iron Property ("Fraser Bay Project") consists of a mineral lease located in Nunavut Territory, Canada. The mineral lease is wholly-owned by Roche Bay PLC ("Roche Bay").

Pursuant to the Fraser Bay Option Agreement as amended by the parties to the agreement, Roche Bay granted the Company an option to acquire up to an undivided 70% right, title and interest in the Fraser Bay Project.

5. Exploration and Evaluation Assets – *Continued*

Fraser Bay Option Agreement – *Continued*

In order to acquire an initial undivided 30% interest in and to the Fraser Bay Project (the "First Option"), the Company must issue to Roche Bay such number of common shares as is equal to 5% of the issued and outstanding common shares of the Company and incur an aggregate of $2,500,000 in exploration expenditures no later than December 1, 2014. In consideration for granting extensions for the completion of the First Option, the Company issued 5,000 common shares to Roche Bay on February 14, 2014.

On December 1, 2014 the Company decided to terminate the Fraser Bay Option Agreement. As such, the Fraser Bay Project exploration and evaluation assets have been written off in 2014 and no further amounts are payable by the Company in respect of the Fraser Bay Option Agreement. The Company estimated that the cost to dismantle its camp on the Fraser Bay Project would be $103,885, which has been recorded as camp removal provision in the statement of profit and loss in the year ended December 31, 2015 and included in accounts payable and accrued liabilities as at December 31, 2015 and September 30, 2016. The removal costs of the camp have been expensed as the corresponding property has already been written down in the year ended November 30, 2014. The Company has a permit to keep its camp on the Property until February 1, 2017 but the Company expects to dismantle the camp during fiscal 2016. The cost to extend the permit to February 1, 2017 was $1,470, which has been recorded as permit extension expense in the statement of profit and loss.

Project Evaluation

During the nine months ended September 30, 2016, the Company incurred project evaluation expenses of $4,856 (2015: $9,710). The project evaluation costs incurred in 2016 were travel costs to the Wels property prior to the Company's decision to enter into an option agreement and therefore have been expensed. The project evaluation costs incurred in 2015 were for properties that the Company did not acquire legal rights to or has decided not to pursue the potential projects, therefore have been expensed.

6. Share Capital

Authorized Share Capital

At September 30, 2016, the authorized share capital comprised an unlimited number of common shares without par value.

On May 25, 2015, the Company consolidated the Company's issued and outstanding common shares, stock options and warrants at a ratio of one new share for ten old shares. On March 2, 2016, the Company consolidated the Company's issued and outstanding common shares, stock options and warrants at ratio of one new share for four old shares. Unless otherwise indicated, all references to share capital, stock options and share purchase warrants presented in these consolidated financial statements and notes thereto are on a post-consolidation basis.

On April 12, 2016, the Company issued 90,000 bonus shares to the lenders of the promissory notes (see Note 7). The fair value of the shares is $7,200, based on the Company's trading price on TSX-V on date of issue, which was recorded to share-based compensation.

(Amounts are expressed in Canadian Dollars)

6. Share Capital – *Continued*

Authorized Share Capital – *Continued*

On June 28, 2016, the Company completed a non-brokered private placement of 4,000,000 units at $0.06 per unit for gross proceeds of $240,000. Each unit consisted of one common share and one warrant. Each warrant entitles the holder to purchase one additional common share at a price of $0.10 per share until June 28, 2019. Gross proceeds from this financing were allocated $128,000 to capital stock and $112,000 to warrant reserves based on their relative fair values. The Company paid $4,050 of share issue costs related to the private placement which was offset against capital stock.

Warrants

Details of outstanding warrants are as follows:	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, December 31, 2014	448,185	$ 8.00
Expired	(269,875)	8.00
Outstanding warrants, December 31, 2015	178,310	$ 8.00
Issued	4,000,000	0.10
Outstanding warrants, September 30, 2016	**4,178,310**	**$ 0.44**

At September 30, 2016, the Company had outstanding warrants enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life in Years
July 29, 2017	$6.00	125,115	0.83
August 3, 2017	$20.00	25,195	0.84
August 28, 2017	$6.00	28,000	0.91
June 28, 2019	$0.10	4,000,000	2.74
Weighted average exercise price and remaining contractual life	**$0.44**	**4,178,310**	**2.66**

The following weighted average assumptions were used for the Black-Scholes option pricing model valuation of warrants granted during nine months ended September 30, 2016

Risk-free interest rate	0.51%
Expected life of options	3.00 years
Expected annualized volatility	139.14%
Expected dividend rate	0%

(Amounts are expressed in Canadian Dollars)

6. Share Capital – *Continued*

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.

The changes in stock options issued are as follows:

	Number	Weighted Average Exercise Price
Outstanding December 31, 2014	131,000	$10.80
Expired/ cancelled without exercise	(131,000)	$10.80
Outstanding December 31, 2015 and September 30, 2016	**-**	**-**

7. Loans payable

During the year ended December 31, 2015 and the nine months ended September 30, 2016, the Company received a total of $90,000 of loans from various lenders including a related party. The loans bear simple interest at a rate of 8% per annum, payable on demand. There was $5,227 of accrued interest payable on the loans during the nine months ended September 30, 2016 which has been included in interest expense for total accrued interest payable of $7,104 as at September 30, 2016.

On January 27, 2016, the Company entered into new loan agreements with the lenders whereby the Company issued promissory notes to the lenders for the $90,000 of loans payable. In addition, the Company has issued 90,000 bonus shares to the lenders on April 12, 2016 (Note 6). The new loans bear interest at 8% per annum and are repayable on or after the earlier of an event of default and January 27, 2017.

8. Marketable Securities

On June 17, 2015, the Company entered into a debt settlement agreement with Bluestone Resources Inc. ("Bluestone") whereby Bluestone will issue 220,765 of its shares to settle the debt of $11,038 owing to the Company. The shares were issued on July 20, 2015.

Management has determined it appropriate to record the common shares of Bluestone as available-for-sale financial assets. The initial investment was recorded at cost. The Company will revalue the investments at each reporting period. Any changes in the fair value of the investments will be recorded in other comprehensive income ("OCI") until the investments are sold or otherwise disposed, at which point any gains and losses recorded to date will be recognized through profit or loss.

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 increased to $30,907 (December 31, 2015: $13,246) as at September 30, 2016, therefore $17,661 was recorded as an unrealized gain on marketable securities during the nine months ended September 30, 2016 (2015: $6,623).

9. 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, other receivable, accounts payables and accrued liabilities and promissory notes payable approximates their carrying value due to their short-term maturity. Cash and 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 GST recoverable. Cash is held with a major Canadian financial institution and 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. The Company does not currently have any significant interest or equity price risk as it has no significant interest bearing financial instruments nor does it hold any investments in equities of another entity.

(Amounts are expressed in Canadian Dollars)

9. Financial Risk Management – *Continued*

e) Foreign currency risk

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. The Company has not entered into any derivative or other financial instruments to mitigate this foreign exchange risk. The Company does not have any significant currency risks associated with its financial instruments at September 30, 2016.

f) 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 so as 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 nine months ended September 30, 2016.

The Company is not subject to any externally imposed capital requirements.

10. Related Party Transactions

Key management personnel compensation

Key management personnel consist of the Company's current and former 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 to a former executive officer. The aggregate value of compensation with key management personnel for the nine months ended September 30, 2016 was $47,250 (2015 - $31,138) and was comprised of the following:

	2016	2015
Exploration expense – field work	$ -	$ 10,600
Personnel	40,250	8,600
Project evaluation	-	9,710
Non-cash benefit	-	2,228
Share-based compensation	7,200	-
	$ 47,250	$ 31,138

10. Related Party Transactions – *Continued*

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

The balance payable to related parties at September 30, 2016 was $3,876 (December 31, 2015 - $16,015) and is included in accounts payable and accrued liabilities. These payables are unsecured, non-interest bearing and are expected to be repaid under normal trade terms.

During the nine months ended September 30, 2016, the Company received a total of $30,000 (2015 - $60,000) in loans from companies controlled by directors of the Company.

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. Subsequent Event

In conjunction with the Wels property transaction (Note 5), the Company completed a non-brokered private placement of 8,000,000 units at $0.25 per unit for gross proceeds of $2,000,000 on October 27, 2016. Each unit consists of one common share and one half of one non-transferable warrant. Each warrant entitles holder to purchase one additional common share at $0.35 per share, expiring on April 27, 2018. The Company received $632,250 of share subscriptions as at September 30, 2016 and has been recorded to share subscriptions received. The Company also incurred $5,307 of costs relating to the private placement that has been recorded as deferred financing costs.