

K2 Gold Corporation
(Formerly “West Melville Metals Inc.”)
(An Exploration Stage Company)
CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015
In Canadian Dollars



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charlton & company
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To: the Shareholders of
K2 Gold Corporation (formerly West Melville Metals Inc.)

We have audited the accompanying consolidated financial statements of K2 Gold Corporation (formerly West Melville Metals Inc.), which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years December 31, 2016 and 2015 and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of K2 Gold Corporation (formerly West Melville Metals Inc.) as at December 31, 2016 and 2015 and its financial performance and cash flows for the years ended December 31, 2016 and 2015 in accordance with International Financial Reporting Standards.

Emphasis of Matters

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company has incurred losses to date. This condition, along with other matters as set forth in Note 1, indicates the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Charlton & Company

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
April 20, 2017

K2 Gold Corporation (formerly “West Melville Metals Inc.”)

(An Exploration Stage Company)

Consolidated Statements of Financial Position

(Amounts are expressed in Canadian Dollars)

	December 31, 2016	December 31, 2015
Assets		
Current Assets		
Cash	\$ 1,533,672	\$ 2,145
GST recoverable	18,138	329
Prepaid expenses	31,188	1,444
Marketable securities (Note 8)	22,076	13,246
	1,605,074	17,164
Exploration and evaluation assets (Note 5)	397,431	-
TOTAL ASSETS	\$ 2,002,505	\$ 17,164
Liabilities and Shareholders' Equity		
Current Liabilities		
Accounts payable and accrued liabilities (Note 10)	\$ 187,291	\$ 147,457
Loans payable (Note 7)	-	61,876
	187,291	209,333
Shareholders' Equity (Deficit)		
Share capital (Note 6)	11,674,091	9,832,270
Reserves (Notes 6)	2,559,065	2,022,411
Accumulated other comprehensive income	11,038	2,208
Deficit	(12,428,980)	(12,049,058)
	1,815,214	(192,169)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)	\$ 2,002,505	\$ 17,164

Nature of operations and going concern (Note 1)

Subsequent event (Note 13)

APPROVED ON BEHALF OF THE BOARD:

“Stephen Swatton”, President, CEO and Director

“Gary Freeman”, Director

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

K2 Gold Corporation (formerly “West Melville Metals Inc.”)
(An Exploration Stage Company)
Consolidated Statements of Loss and Comprehensive Loss
For the Years Ended December 31, 2016 and 2015
(Amounts are expressed in Canadian Dollars)

	2016	2015
Expenses		
Advertising, marketing and promotion	\$ 24,367	\$ 4,142
Consulting	8,750	400
Corporate listing and filing fees	47,996	27,791
Depreciation (Note 4)	-	4,977
Interest expense (Note 7)	6,291	2,181
Office and administration	13,820	6,601
Personnel (Note 10)	159,917	15,328
Project evaluation (Note 5)	4,856	9,710
Professional fees	41,088	29,190
Rent	14,081	(2,742)
Share-based compensation (Note 6)	7,200	-
Travel and conferences	15,299	2,309
Loss Before the Undernoted	(343,665)	(99,887)
Other Income (Expenses)		
Interest income	-	57
Camp removal costs	(35,692)	(103,885)
Permit extension expense	(1,470)	-
Recovery of accounts payable	905	4,415
Write-off of equipment (Note 4)	-	(20,943)
Write-off of exploration and evaluation assets (Note 5)	-	(2,736,070)
Loss for the Year	(379,922)	(2,956,313)
Unrealized gain on marketable securities (Note 8)	8,830	2,208
Comprehensive Loss for the Year	\$ (371,092)	\$ (2,954,105)
Loss per share – basic and diluted	\$ (0.08)	\$ (2.25)
Weighted average number of common shares outstanding	4,930,562	1,315,137

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

K2 Gold Corporation (formerly “West Melville Metals Inc.”)

(An Exploration Stage Company)

Consolidated Statement of Changes in Equity (Deficit)

(Amounts are expressed in Canadian Dollars)

	Share Capital		Reserves \$	Accumulated Other Comprehensive Income \$	Deficit \$	Total \$
	Shares	Amount \$				
Balance, December 31, 2014	1,315,137	9,832,270	2,022,411	-	(9,092,745)	2,761,936
Unrealized gain on marketable securities	-	-	-	2,208	-	2,208
Loss for the year	-	-	-	-	(2,956,313)	(2,956,313)
Balance, December 31, 2015	1,315,137	9,832,270	2,022,411	2,208	(12,049,058)	(192,169)
Private placements	12,000,000	2,240,000	-	-	-	2,240,000
Share issue costs	-	(18,725)	-	-	-	(18,725)
Fair value of warrants	-	(516,000)	516,000	-	-	-
Fair value of finders' fees warrants	-	(20,654)	20,654	-	-	-
Bonus shares issued	90,000	7,200	-	-	-	7,200
Shares issued for property	500,000	150,000	-	-	-	150,000
Unrealized gain on marketable securities	-	-	-	8,830	-	8,830
Loss for the year	-	-	-	-	(379,922)	(379,922)
Balance, December 31, 2016	13,905,137	11,674,091	2,559,065	11,038	(12,428,980)	1,815,214

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

K2 Gold Corporation (formerly “West Melville Metals Inc.”)
 (An Exploration Stage Company)
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015
(Amounts are expressed in Canadian Dollars)

Cash Provided By (Used In):	2016	2015
Operations:		
Loss for the year	\$ (379,922)	\$ (2,956,313)
Items not affecting cash:		
Depreciation	-	4,977
Share-based compensation	7,200	-
Interest income	-	(57)
Interest expense	6,291	2,180
Camp removal costs	-	103,885
Write-off of equipment	-	20,943
Write-off of exploration and evaluation assets	-	2,736,070
Change in non-cash working capital:		
GST recoverable	(17,809)	2,592
Prepaid expenses	(29,744)	930
Accounts payable and accrued liabilities	4,077	17,334
	<u>(409,907)</u>	<u>(67,459)</u>
Interest received	-	57
Interest paid	-	(304)
	<u>(409,907)</u>	<u>(67,706)</u>
Investing:		
Acquisition of exploration and evaluation assets	(187,770)	-
Exploration and evaluation expenditures	(23,904)	(49,753)
	<u>(211,674)</u>	<u>(49,753)</u>
Financing:		
Issuance of share capital	2,240,000	-
Share issue costs	(18,725)	-
Proceeds from loans	30,000	60,000
Repayment of promissory notes and interest	(98,167)	-
	<u>2,153,108</u>	<u>60,000</u>
Net increase (decrease) in cash	1,531,527	(57,459)
Cash - beginning of year	2,145	59,604
Cash - end of year	\$ 1,533,672	\$ 2,145

See Note 11 for supplementary disclosure with respect to cash flows.

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

K2 Gold Corporation (formerly “West Melville Metals Inc.”)

(An Exploration Stage Company)

Notes to Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Amounts are expressed in Canadian Dollars)

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.

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 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, 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 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.

K2 Gold Corporation (formerly “West Melville Metals Inc.”)

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Amounts are expressed in Canadian Dollars)

2. Basis of Presentation

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and the International Financial Reporting Interpretations Committee (“IFRIC”).

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale and financial assets at fair value through profit or loss, which are stated at their fair values. In addition, these financial statements have been prepared using the accrual basis of accounting.

The accounting policies set out in Note 3 have been applied consistently by the Company during the years presented.

b) Approval of the Financial Statements

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 20, 2017.

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 March 31, 2015. All intercompany balances and transactions have been eliminated upon consolidation

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 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.

K2 Gold Corporation (formerly “West Melville Metals Inc.”)

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Amounts are expressed in Canadian Dollars)

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.

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.

K2 Gold Corporation (formerly “West Melville Metals Inc.”)

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Amounts are expressed in Canadian Dollars)

3. Significant Accounting Policies – Continued

b) Impairment

i) Financial assets

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

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.

ii) Non-financial assets

At each reporting date the carrying amounts of the Company's long-lived assets, which are comprised of equipment and capitalized exploration and evaluation costs associated with mineral properties, are reviewed to determine whether there is any indication that those assets are impaired. If any 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, which is the present value of future cash flows expected to be derived from the asset or its related cash generating unit. For purposes of impairment testing, assets are grouped at the lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”). The Company's cash generating unit relates to the property being explored in Greenland.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the associated assets are reduced to their recoverable amount and the impairment loss is recognized in the profit or loss for the period.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment charge is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of any applicable depreciation, if no impairment loss had been recognized.

K2 Gold Corporation (formerly “West Melville Metals Inc.”)

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Amounts are expressed in Canadian Dollars)

3. Significant Accounting Policies – Continued

c) Equipment

i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss.

ii) Subsequent costs

The cost of replacing an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced item is derecognized. The costs of the day-to-day servicing of the property and equipment are expensed.

iii) Depreciation

Depreciation is calculated over the cost of an asset less its residual value. Depreciation is provided on a declining balance method at rates designed to depreciate the cost of the equipment over the estimated useful lives. The annual amortization rates are as follows:

Computer equipment	30%
Office furniture and equipment	20%
Field Equipment	20%

Depreciation of leasehold improvements is calculated straight-line over the term of the lease.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

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.

K2 Gold Corporation (formerly “West Melville Metals Inc.”)

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Amounts are expressed in Canadian Dollars)

3. Significant Accounting Policies – Continued

d) Share-based compensation – Continued

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.
- ii) Share capital issued for non-monetary consideration is recorded at an amount based on fair value of these common shares.
- 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 recognizes a deferred tax recovery.

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.

K2 Gold Corporation (formerly “West Melville Metals Inc.”)

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Amounts are expressed in Canadian Dollars)

3. Significant Accounting Policies – Continued

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 period. Diluted loss per common share is 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 period.

j) Comprehensive Income

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 available for sale will have revaluation gains and losses included in other comprehensive income or loss until the asset is removed from the statement of financial position.

K2 Gold Corporation (formerly “West Melville Metals Inc.”)
(An Exploration Stage Company)
Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015
(Amounts are expressed in Canadian Dollars)

3. Significant Accounting Policies – Continued

k) Financial instruments

The Company accounts for its financial instruments as follows:

Cash	Loans and receivables
Marketable securities	Available-for-sale financial assets
Accounts payable and accrued liabilities and loans payable	Financial liabilities measured at amortized cost

Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. Management determines the classification of its financial assets at initial recognition. All transactions related to financial instruments are recorded on a trade date basis. The Company’s accounting policy for each category is as follows:

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities of greater than twelve months after the end of the reporting period, which are classified as non-current assets. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Financial Assets at Fair Value Through Profit or Loss

An instrument is classified at fair value through profit or loss if it is held for trading. Financial instruments are designated at fair value through profit or loss if the Company manages such investments and makes purchases and sale decisions based on their fair value in accordance with the Company’s risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Company has not designated any financial assets as fair value through profit or loss.

K2 Gold Corporation (formerly “West Melville Metals Inc.”)
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Notes to the Consolidated Financial Statements
For the years ended December 31, 2016 and 2015
(Amounts are expressed in Canadian Dollars)

3. Significant Accounting Policies – Continued

k) Financial instruments – Continued

Available-for-sale Financial Assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within twelve months of the end of the reporting period. Subsequent to initial recognition, available-for-sale financial assets are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an instrument is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Financial Liabilities

Financial liabilities other than derivative liabilities are recognized initially at fair value and are subsequently stated at amortized cost. Transaction costs on financial assets and liabilities other than those classified at fair value through profit and loss are treated as part of the carrying value of the asset or liability. Transaction costs for assets and liabilities at fair value through profit and loss are expensed as incurred.

Impairment of Financial Assets

The Company assesses at the end of each reporting date whether there are indicators of impairment present for financial assets other than financial assets at fair value through profit and loss. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

An impairment loss in respect of a financial asset carried at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted using the instrument’s original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value. In the case of equity instruments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset that was previously recognized in profit or loss, is removed from equity and recognized in profit or loss.

All impairment losses are recognized in profit or loss. Any cumulative loss in respect of an available-for-sale financial asset recognized previously in equity is transferred to profit or loss.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized.

K2 Gold Corporation (formerly “West Melville Metals Inc.”)

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Notes to the Consolidated Financial Statements

For the years ended December 31, 2016 and 2015

(Amounts are expressed in Canadian Dollars)

3. Significant Accounting Policies – Continued

l) 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.

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.

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.

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m) 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 Improvement s	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 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 2016	\$ -	\$ -	\$ -	\$ -	\$ -
Carrying Value					
At December, 31, 2015	\$ -	\$ -	\$ -	\$ -	\$ -
At December 31, 2016	\$ -	\$ -	\$ -	\$ -	\$ -

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5. Exploration and Evaluation Assets

	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 December 31, 2016	-	-	-

	Acquisition Costs \$	Deferred Exploration \$	Total \$
Wels Property:			
Balance, December 31, 2015	-	-	-
Legal	45,057	-	45,057
Advanced royalty payment	20,000	-	20,000
Cash payment	150,000	-	150,000
Shares issued	150,000	-	150,000
Geology	-	1,338	1,338
Geological consulting	-	14,724	14,724
Environmental	-	5,107	5,107
Land use and licenses	-	10,463	10,463
Travel	-	741	741
Balance, December 31, 2016	365,057	32,373	397,430

Isortoq Property

The Company owned 100% of the Isortoq Property clear of any third party royalties. During the year ended December 31, 2015, the Company determined it will not conduct further exploration on the Isortoq property and therefore, total acquisition costs of \$2,736,070 were written down to \$Nil.

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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 October 16, 2016	\$ 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

* Paid/issued. These common shares were issued on October 27, 2017 at which time the Company’s common shares had a market value of \$0.30 per common share. Therefore, the fair value of these common shares was \$150,000 as at the time of their issuance.

** Issued subsequent to year end.

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.

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5. Exploration and Evaluation Assets – *Continued*

Fraser Bay Option Agreement – *Continued*

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. During the year ended December 31, 2016, the Company dismantled the camp for a total of \$139,577, of which \$103,885 was recorded as camp removal costs in the year ended December 31, 2015. The removal costs of the camp have been expensed as the corresponding property has already been written down in the year ended December 31, 2014. The Company paid \$1,470 for a permit until February 1, 2017 to keep its camp on the property until it was dismantled, which has been recorded as permit extension expense in the statement of profit and loss.

Project Evaluation

During the year ended December 31, 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 December 31, 2016, the authorized share capital comprised an unlimited number of common shares without par value.

Share Consolidation

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, subsequent to December 31, 2015, 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.

Issued Share Capital

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

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6. Share Capital – Continued

Issued 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.

On October 27, 2016, 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. Each unit consisted of one common share and one-half warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.35 per share until April 27, 2018. Gross proceeds from this financing were allocated \$1,596,000 to capital stock and \$404,000 to warrant reserves based on their relative fair values. The Company paid \$14,675 of share issue costs related to the private placement which was offset against capital stock. The Company issued 136,200 of finders’ fee warrants. Each warrant entitles the holder to purchase one additional common share at a price of \$0.35 per share until April 27, 2018.

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	8,136,200	0.23
Outstanding warrants, December 31, 2016	8,314,510	\$ 0.39

At December 31, 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	0.58
August 3, 2017	\$20.00	25,195	0.59
August 28, 2017	\$6.00	28,000	0.66
April 27, 2018	\$0.35	4,136,200	1.32
June 28, 2019	\$0.10	4,000,000	2.49
Weighted average exercise price and remaining contractual life	\$0.39	8,314,510	1.87

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6. Share Capital – Continued

Warrants – Continued

The fair value of finders warrants issued during the 2016 year was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Risk-free interest rate	0.55%
Expected life of options	2.23 years
Expected annualized volatility	129.63%
Expected dividend rate	0%

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 2016	-	-

7. Loans payable

During the years ended December 31, 2015 and 2016, the Company received a total of \$90,000 of loans from various companies controlled by directors of the Company. The loans bear simple interest at a rate of 8% per annum, payable on demand. There was \$6,291 (2015 - \$1,876) of interest on the loans accrued during the year ended December 31, 2016 which has been included in interest expense.

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. The loans were repaid during the year ended December 31, 2016, which included \$90,000 of principal and \$8,167 of accumulated interest expense.

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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 \$22,076 (December 31, 2015: \$13,246) as at December 31, 2016, therefore \$8,830 was recorded as an unrealized gain on marketable securities during the year ended December 31, 2016 (2015: \$2,208).

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 loans 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.

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9. Financial Risk Management – Continued

b) 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).

c) 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.

d) 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 December 31, 2016.

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 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 year ended December 31, 2016.

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

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10. Related Party Transactions

Key management personnel compensation

Key management personnel consist 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 to an executive officer. The aggregate value of compensation with key management personnel for the year ended December 31, 2016 was \$165,450 (2015 - \$35,638) and was comprised of the following:

	2016	2015
Exploration expense – field work	\$ -	\$ 10,600
Personnel	158,250	15,328
Project evaluation	-	9,710
Share-based compensation expense	7,200	-
	<u>\$ 165,450</u>	<u>\$ 35,638</u>

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

The balance payable to related parties at December 31, 2015 was \$134,450 (December 31, 2015 - \$8,325) 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 year ended December 31, 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. Supplemental Disclosure with Respect to Cash Flows

Significant non-cash investing and financing transactions for the year ended December 31, 2016 were as follows:

- There were \$27,287 of mineral property acquisition that was included in accounts payable and accrued liabilities.
- There were \$8,470 of exploration and evaluation costs that were included in accounts payable and accrued liabilities.
- Issued 500,000 common shares at a fair value of \$150,000 for mineral property acquisition.
- Fair value of warrants allocated from share capital on private placement of \$516,000.
- Issued warrants valued at \$20,654 as finders’ fees on a private placement.

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11. Supplemental Disclosure with Respect to Cash Flows – Continued

Significant non-cash investing and financing transactions for the year ended December 31, 2015 were as follows:

- a) Received 220,765 common shares of Bluestone at a fair value of \$11,038 which was recorded as a reduction to other receivables.

12. Income Taxes

Current Income Taxes

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

	2016	2015
Loss for the year	\$ (371,092)	\$ (2,954,105)
A reconciliation of income taxes at Canadian statutory rate of:	26.00%	26.00%
Expected income tax recovery	(96,484)	(768,067)
Non-deductible (deductible) expenses		
Permanent and other differences	99,015	51,672
Increase (decrease) in valuation allowance	(2,531)	716,395
Income tax expense (recovery)	\$ -	\$ -

At December 31, 2016, the Company had estimated net operating losses carried forward of approximately \$3,229,000 in Canada (2015 - \$2,741,000) (expiring in 2031 to 2036) available to reduce future taxable income. In addition to its loss carry-forwards, the Company has deductible temporary differences of approximately \$9,966,000 (2015 - \$9,567,000) 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.

Deferred Taxes

The significant components of the Company's deferred tax assets that have not been included on the consolidated statement of financial position are as follows:

	December 31, 2016	December 31, 2015
Deferred Tax Assets (Liabilities)		
Exploration and evaluation assets	\$ 1,729,000	\$ 1,729,000
Share issue costs	5,000	28,000
Non-capital and capital available for future period	840,000	713,000
Equipment	17,000	17,000
	2,591,000	2,487,000
Unrecognized deferred tax assets	(2,591,000)	(2,487,000)
Net deferred tax assets	\$ -	\$ -

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12. Income Taxes – Continued

Deferred Taxes – Continued

The future income tax rate that is estimated to be applicable when the temporary differences reverse is estimated to be 26%.

13. Subsequent Event

On March 6, 2017, the Company entered into an agreement with Commander Resources Ltd. (“Commander”) to acquire 100% interest in the Flume property, located in the Yukon Territory. To earn 60% interest, the Company must spend \$2 million in exploration (\$200,000 firm commitment in year one) and staged cash and share payments as follows:

- Upon signing the Company will pay Commander \$25,000 (paid) and 100,000 shares (issued)
- Year one anniversary - \$35,000 and 100,000 shares
- Year two anniversary - \$50,000 and 150,000 shares
- Year three anniversary - \$75,000 and 150,000 shares
- Year four anniversary - \$215,000 and 500,000 shares

Upon fulfilment of the initial option conditions, the Company will have the right to earn a further 40% interest by making an additional \$3 million in expenditures, making additional cash payments of \$250,000, and issuing a further 2 million shares to Commander. If K2 has acquired 100% interest in the property and announces a production decision, it will pay Commander either \$10 million in cash or \$5 million cash and \$5 million value in shares of the Company.

This agreement was approved of the TSX Venture Exchange on March 15, 2017.