

**K2 Gold Corporation**

**(Formerly “West Melville Metals Inc.”)**

**(An Exploration Stage Company)**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2017 AND 2016**

**In Canadian Dollars**

**Unaudited – Prepared by Management**

## **Notice of Non-review of Condensed Interim Financial Statements**

The attached condensed interim financial statements for the six-month period ended June 30, 2017 and 2016 have been prepared by and are the responsibility of the Company's management and have been approved by the Board of Directors of the Company. The Company's independent auditor has not performed a review of these condensed interim financial statements.

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

(An Exploration Stage Company)

## Condensed Consolidated Statements of Financial Position

(Amounts are expressed in Canadian Dollars)

	Notes	June 30, 2017 (Unaudited)	December 31, 2016 (Audited)
<b>Assets</b>			
<b>Current Assets</b>			
Cash		\$ 1,724,735	\$ 1,533,672
GST recoverable		22,501	18,138
Prepaid expenses		21,078	31,188
Marketable securities	6	116,269	22,076
			1,605,074
Exploration and evaluation assets	4	1,133,072	397,431
<b>TOTAL ASSETS</b>		<b>\$ 3,017,655</b>	<b>\$ 2,002,505</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current Liabilities</b>			
Accounts payable and accrued liabilities		\$ 116,613	\$ 187,291
		116,613	187,291
<b>Shareholders' Equity (Deficit)</b>			
Share capital	5	12,983,938	11,674,091
Reserves	5	2,995,295	2,559,065
Accumulated other comprehensive income		105,231	11,038
Deficit		(13,183,423)	(12,428,980)
		2,901,041	1,815,214
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY (DEFICIT)</b>		<b>\$ 3,017,654</b>	<b>\$ 2,002,505</b>

Nature of operations and going concern (Note 1)

Subsequent event (Note 9)

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)**  
**Condensed Consolidated Statements of Loss and Comprehensive Loss**  
*(Amounts are expressed in Canadian Dollars)*

	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
<b>Expenses</b>				
Advertising, marketing and promotion	\$ 22,451	\$ 897	\$ 50,666	\$ 1,794
Consulting	38,876	-	77,042	-
Corporate listing and filing fees	13,620	6,547	26,191	20,112
Interest expense	-	1,795	-	3,413
Office and administration	12,206	1,533	20,310	3,803
Personnel	68,576	29,500	126,077	34,000
Professional fees	6,270	3,273	13,836	4,376
Rent	7,884	-	20,484	-
Share-based compensation	404,544	7,200	404,544	7,200
Travel and conferences	9,961	-	15,293	-
<b>Loss Before the Undernoted</b>	<b>(584,388)</b>	<b>(50,745)</b>	<b>(754,443)</b>	<b>(74,698)</b>
<b>Other Income (Expenses)</b>				
Permit extension expense	-	(1,470)	-	(1,470)
Recovery of accounts payable	-	905	-	905
<b>Loss for the Period</b>	<b>(584,388)</b>	<b>(51,310)</b>	<b>(754,443)</b>	<b>(75,263)</b>
Unrealized gain (loss) on marketable securities	94,193	16,557	94,193	17,661
<b>Comprehensive Loss for the Period</b>	<b>\$ (490,195)</b>	<b>\$ (34,753)</b>	<b>(660,250)</b>	<b>(57,602)</b>
<b>Loss per share – basic and diluted</b>	<b>\$ (0.03)</b>	<b>\$ (0.03)</b>	<b>(0.05)</b>	<b>(0.04)</b>
<b>Weighted average number of common shares outstanding</b>	<b>14,582,404</b>	<b>1,477,026</b>	<b>14,392,532</b>	<b>1,395,634</b>

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

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

(An Exploration Stage Company)

### Condensed Consolidated Statements of Cash Flows

(Amounts are expressed in Canadian Dollars)

<b>Cash Provided By (Used In):</b>	<b>Six Months Ended June 30, 2017</b>	<b>Six Months Ended June 30, 2016</b>
<b>Operations:</b>		
Loss for the year	\$ (754,443)	\$ (75,263)
Items not affecting cash:		
Interest expense	-	3,413
Share-based compensation	404,544	7,200
Change in non-cash working capital:		
GST recoverable	(4,363)	(392)
Prepaid expenses	10,110	(2,910)
Accounts payable and accrued liabilities	(70,678)	9,721
	(414,830)	(58,231)
<b>Investing:</b>		
Exploration and evaluation expenditures	(550,640)	-
<b>Financing:</b>		
Proceeds from issuance of shares	1,199,990	240,000
Share issue costs	(57,064)	(2,050)
Proceeds from convertible loans	-	30,000
Proceeds from warrants exercised	13,607	
	1,156,533	267,950
<b>Net increase (decrease) in cash</b>	191,063	209,719
<b>Cash - beginning of year</b>	1,533,672	2,145
<b>Cash - end of year</b>	\$ 1,724,735	\$ 211,864

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

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### Condensed Consolidated Statement of Changes in Equity (Deficit)

*(Amounts are expressed in Canadian Dollars)*

	Share Capital		Reserves	Accumulated	Deficit	Total
	Shares	Amount		Other		
	#	\$	\$	Comprehensive Income \$	\$	\$
<b>Balance, December 31, 2015</b>	<b>1,315,137</b>	<b>9,832,270</b>	<b>2,022,411</b>	<b>2,208</b>	<b>(12,049,058)</b>	<b>(192,169)</b>
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)
<b>Balance, December 31, 2016</b>	<b>13,905,137</b>	<b>11,674,091</b>	<b>2,559,065</b>	<b>11,038</b>	<b>(12,428,980)</b>	<b>1,815,214</b>
Shares issued for option payment	500,000	150,000	-	-	-	150,000
Shares issued for option payment	100,000	35,000	-	-	-	35,000
Warrant Exercise	15,000	5,250	-	-	-	5,250
Warrant Exercise	24,000	8,357	-	-	-	8,357
Share Issue	2,301,400	805,490	-	-	-	805,490
Share Issue	986,250	394,500	-	-	-	394,500
Unrealized gain on marketable securities	-	-	-	94,193	-	94,193
Share issuance costs	-	(88,750)	31,686	-	-	(57,064)
Share base compensation	-	-	404,544	-	-	404,544
Loss for the year	-	-	-	-	(754,443)	(349,896)
<b>Balance, June 30, 2017</b>	<b>17,831,787</b>	<b>12,983,938</b>	<b>2,995,295</b>	<b>105,231</b>	<b>(13,183,423)</b>	<b>2,901,041</b>

- 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 Condensed Consolidated Financial Statements**

**For the Six Months Ended June 30, 2017 and 2016**

*(Amounts are expressed in Canadian Dollars)*

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

K2 Gold Corporation (“K2 Gold” or the “Company”) (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 June 30, 2017, 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.

### **2. Basis of Presentation**

#### **a) Statement of Compliance**

These condensed interim financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). The accounting policies followed in these condensed interim financial statements are the same as those applied in the Company’s most recent annual financial statements for the year ended December 31, 2016.

The policies applied in these condensed interim financial statements are based on IFRS issued and outstanding as of August 29, 2017, the date the Board of Directors approved the statements. Certain of the comparative year figures have been reclassified to conform to the current year’s presentation. The condensed interim financial statements should be read in conjunction with the Company’s annual financial statements for the year ended December 31, 2016.

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

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## **Notes to Condensed Consolidated Financial Statements**

**For the Six Months Ended June 30, 2017 and 2016**

*(Amounts are expressed in Canadian Dollars)*

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### **2. Basis of Presentation – Continued**

#### **b) Approval of the Financial Statements**

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

#### **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, 2016 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.



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

(An Exploration Stage Company)

## **Notes to Condensed Consolidated Financial Statements**

**For the Six Months Ended June 30, 2017 and 2016**

*(Amounts are expressed in Canadian Dollars)*

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### **2. Basis of Presentation – Continued**

#### **f) Critical Accounting Judgments and Estimates – Continued**

##### ***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.

##### ***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.

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

(An Exploration Stage Company)

## Notes to Condensed Consolidated Financial Statements

For the Six Months Ended June 30, 2017 and 2016

(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. Exploration and Evaluation Assets

Isortoq Property:	Acquisition Costs \$	Deferred Exploration \$	Total \$
<b>Balance, December 31, 2014</b>	<b>2,339,778</b>	<b>346,539</b>	<b>2,686,317</b>
Claims and staking	-	39,153	39,153
Field work	-	10,600	10,600
Write-offs	(2,339,778)	(396,292)	(2,736,070)
<b>Balance, December 31, 2015 and June 30, 2017</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

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## Notes to Condensed Consolidated Financial Statements

For the Six Months Ended June 30, 2017 and 2016

(Amounts are expressed in Canadian Dollars)

### 4. Exploration and Evaluation Assets - Continue

<b>Wels Property:</b>	<b>Acquisition Costs \$</b>	<b>Deferred Exploration \$</b>	<b>Total \$</b>
<b>Balance, December 31, 2015</b>	-	-	-
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
<b>Balance, December 31, 2016</b>	<b>365,057</b>	<b>32,373</b>	<b>397,430</b>
Shares issued	150,000	-	150,000
Geology	-	174,947	174,947
Aviation	-	90,923	90,923
Land use and licenses	-	1,050	1,050
Community Relations	-	68,946	68,946
Travel	-	27,224	27,224
<b>Balance, June 30, 2017</b>	<b>515,057</b>	<b>395,463</b>	<b>910,520</b>

<b>Flume Property:</b>	<b>Acquisition Costs \$</b>	<b>Deferred Exploration \$</b>	<b>Total \$</b>
<b>Balance, December 31, 2016</b>	-	-	-
Shares issued	60,000	-	60,000
Geology	-	39,601	39,601
Aviation	-	8,833	8,833
Travel	-	3,131	3,131
<b>Balance, June 30, 2017</b>	<b>60,000</b>	<b>51,565</b>	<b>111,565</b>

<b>Storck Property:</b>	<b>Acquisition Costs \$</b>	<b>Deferred Exploration \$</b>	<b>Total \$</b>
<b>Balance, December 31, 2016</b>	-	-	-
Aviation	-	32,829	32,829
Staking	-	35,100	35,100
<b>Balance, June 30, 2017</b>	<b>-</b>	<b>67,929</b>	<b>67,929</b>

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

(An Exploration Stage Company)

## Notes to Condensed Consolidated Financial Statements

For the Six Months Ended June 30, 2017 and 2016

(Amounts are expressed in Canadian Dollars)

### 4. Exploration and Evaluation Assets – Continued

Ladue Property:	Acquisition Costs \$	Deferred Exploration \$	Total \$
<b>Balance, December 31, 2016</b>	-	-	-
Aviation	-	21,256	21,256
Staking	-	20,800	20,800
Geology	-	1,000	1,000
<b>Balance, June 30, 2017</b>	-	<b>43,056</b>	<b>43,056</b>

#### 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.

#### 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
<b>Total</b>	<b>\$ 350,000</b>	<b>\$ 3,000,000 ***</b>

\* Paid/issued. These common shares were issued on October 27, 2016 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.

\*\* Paid/issued subsequent to quarter-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

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For the Six Months Ended June 30, 2017 and 2016

(Amounts are expressed in Canadian Dollars)

diluted to less than 1.0%, that diluted party’s interest will be cancelled and the Joint Venture will terminate.

#### 4. Exploration and Evaluation Assets – Continued

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.

#### Flume Property

The Company entered into an agreement with Commander Resources Ltd., (“Commander”) to acquire 100% of the 3,680 Ha Flume property in the historical Ten Mile River Gold District, 70km south west of Dawson City.

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

	Cash option payments		Issuance of common shares
Upon signing of Agreement	\$ 25,000 *	\$	100,000 *
Year one anniversary	35,000		100,000
Year two anniversary	50,000		150,000
Year three anniversary	75,000		150,000
Year four anniversary	215,000		500,000
<b>Total</b>	<b>\$ 400,000</b>	<b>\$</b>	<b>1,000,000</b>

\* Paid/issued. These common shares were issued on March 15, 2017 at a market value of \$0.35 per common share. Therefore, the fair value of these common shares was \$35,000 as at the time of their issuance.

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

#### Storck Property

The Company staked 7,000 Ha to the west and north of the Flume property, referred to as the Storck Property. The area covers potential extensions of the regional structures associated with the mineralization at the Flume North and Flume South targets. Structural data has indicated that the Commander tenements may only partially cover the extensions of known mineralization. Integration of historical Freeport data and the results of the recent drilling have indicated that there is a strong likelihood for additional targets to the north and west of the current Commander land package.

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## **Notes to Condensed Consolidated Financial Statements**

**For the Six Months Ended June 30, 2017 and 2016**

*(Amounts are expressed in Canadian Dollars)*

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### **4. Exploration and Evaluation Assets – Continued**

#### **Ladue Property**

The Company staked and filed 208 claims in the eastern Moosehorn Range area adjacent to Independence Gold's Moosehorn Property in Central West Yukon. The single claim block, collectively known by the Company as the Ladue Property (“Ladue”), is located adjacent to a district that has undergone significant historical placer mining activity. It is also close to the location where several gold veins were discovered in the 1970's. The western side of the Moosehorn Range has been extensively explored but the eastern end has witnessed very little exploration activity, probably due to access limitations and less outcrop. The gold veins discovered to date in the Moosehorn range are hosted in several phases of granitoid and felsic-related rocks that are believed to be structurally controlled within a dilational geologic setting.

### **5. Share Capital**

#### **Authorized Share Capital**

At June 30, 2017, 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

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.

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## **Notes to Condensed Consolidated Financial Statements**

**For the Six Months Ended June 30, 2017 and 2016**

*(Amounts are expressed in Canadian Dollars)*

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### **5. Share Capital - Continue**

#### ***Issued Share Capital - Continue***

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.

On Feb 10, 2017, the Company issued 500,000 shares as per the signed option agreement with Gorilla Minerals Corp. (“Gorilla”) on August 11, 2016 (amended on 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”.

On March 15, 2017, the Company issued 100,000 shares as per the agreement with Commander regarding the Flume property.

On June 28, 2017, the Company completed a non-brokered private placement of 2,301,400 units (the “Units”) at a price of \$0.35 per Unit and 986,250 flow-through shares (the “FT Shares”) at a price of \$0.40 per FT Share, for gross proceeds of \$1,199,990 (the “Offering”).

Each Unit consisted of one common share of the Company (a “Share”) and one-half of one nontransferable common share purchase warrant for a term of eighteen months (the “Warrants”). Each Warrant will entitle the holder thereof to purchase one additional common share of K2 at an exercise price of \$0.55 per common share during the term of the Warrants, subject to the right of the Company to accelerate the expiry of the Warrants. If at any time after October 29, 2017 and during the Warrant Term, the common shares of the Company close at a price at or above \$0.65 per share for more than 10 consecutive trading days (an “Acceleration Event”) and the Company elects to accelerate the expiry of the Warrants and give notice, within five days of such Acceleration Event, to the holders that an Acceleration Event has occurred, then the expiry of the Warrants will be accelerated such that the Warrants will then terminate 30 calendar days after the Company gives such notice (the “Accelerated Expiry”).

In connection with the Offering, K2 entered into finder's fee agreements with four arm's length finders pursuant to which K2 issued 155,540 warrants (“Finder's Warrants”) and paid cash finders' fees in the aggregate of \$57,064 (the “Cash Finders Fee”). Each Finder's Warrant has the same terms as the Warrants issued under the Offering.

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

(An Exploration Stage Company)

## Notes to Condensed Consolidated Financial Statements

For the Six Months Ended June 30, 2017 and 2016

(Amounts are expressed in Canadian Dollars)

### 5. Share Capital - Continue

#### 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 and March 31, 2017	8,314,510	\$ 0.39
Issued	1,306,240	\$ 0.55
Outstanding warrants, June 30, 2017	9,581,750	\$ 0.41

During the second quarter of 2017, 39,000 warrants were exercised at \$0.35 cents for total proceeds of \$13,650.00.

At June 30, 2017, 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	0.08
August 3, 2017	\$20.00	25,195	0.09
August 28, 2017	\$6.00	28,000	0.16
April 27, 2018	\$0.35	4,097,200	0.82
June 28, 2019	\$0.10	4,000,000	1.99
December 28, 2018	\$0.55	1,306,240	1.50
Weighted average exercise price and remaining contractual life	\$0.41	9,581,750	1.37

#### 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 Company granted on May 1, 2017, under its Share Option Plan, incentive stock options to certain directors, officers and consultants of the Company to purchase an aggregate of 1,200,000 common shares exercisable for a period of up to five years from the date of grant at a price of \$0.30 per share. This grant is subject to acceptance for filing by the TSX Venture Exchange.



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

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## Notes to Condensed Consolidated Financial Statements

For the Six Months Ended June 30, 2017 and 2016

(Amounts are expressed in Canadian Dollars)

### 5. Share Capital – Continued

#### *Stock Options – Continued*

On June 12, 2017, the Company granted, under its Share Option Plan, further incentive stock options to certain directors, officers and consultants of the Company to purchase an aggregate of 55,000 common shares exercisable for a period of up to five years from the date of grant at a price of \$0.36 per share. This grant is subject to acceptance for filing by the TSX Venture 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 March 31, 2017	-	-
Issued May 1, 2017	1,200,000	\$0.30
Issued June 12, 2017	55,000	\$0.36
Outstanding, June 30, 2017	1,255,000	\$0.30

### 6. 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 as at June 30, 2017 was \$116,269.

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

**(An Exploration Stage Company)**

## **Notes to Condensed Consolidated Financial Statements**

**For the Six Months Ended June 30, 2017 and 2016**

*(Amounts are expressed in Canadian Dollars)*

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### **7. Financial Instruments**

#### **a. Fair values**

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

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

The fair value of cash, 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.

#### **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.

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

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## Notes to Condensed Consolidated Financial Statements

For the Six Months Ended June 30, 2017 and 2016

(Amounts are expressed in Canadian Dollars)

### 7. Financial Instruments – 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 June 30, 2017.

#### 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 quarter ended June 30, 2017.

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

### 8. 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 six months ended June 30, 2017 was \$510,544 (June 30, 2016 - \$41,200) and was comprised of the following:

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Exploration expense – field work	\$ -	\$ -
Personnel	106,000	34,000
Project evaluation	-	-
Share-based compensation	404,544	7,200
	\$ 510,544	\$ 41,200

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

**(An Exploration Stage Company)**

## **Notes to Condensed Consolidated Financial Statements**

**For the Six Months Ended June 30, 2017 and 2016**

*(Amounts are expressed in Canadian Dollars)*

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### **8. 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 June 30, 2017 was \$130 (December 31, 2016 - \$134,450) 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.

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.

### **9. Subsequent Events**

#### ***Financing and Corporate***

On July 31, 2017, the Company paid \$20,000.00 in royalties.

On August 11, 2017, the Company issued 500,000 shares and paid \$100,000.00 to Gorilla Minerals Corp. (“Gorilla”) as per the terms of the signed option agreement with Gorilla on August 11, 2016 (amended on 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”.