

# KLONDIKE SILVER

OUR VISION: Silver/Lead/Zinc Production

## **Financial Statements**

**For the Quarters Ended August 31, 2017 and 2016**

(Expressed in Canadian Dollars)

(Unaudited)

## NOTICE

### No auditor review of these Condensed Interim Financial Statements

The accompanying unaudited condensed interim financial statements of Klondike Silver Corp. (“the Company”), for the three months ended August 31, 2017, have been prepared by management and have not been the subject of a review by the Company’s external independent auditors.

**KLONDIKE SILVER CORP.**  
**STATEMENTS OF FINANCIAL POSITION**  
(Expressed In Canadian dollars)  
(Unaudited)

	August 31, 2017	May 31, 2017
<b>ASSETS</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 288,452	\$ 648,220
Receivables	13,574	21,520
Prepaid expenses	108,243	119,087
<b>Total Current Assets</b>	<b>410,269</b>	<b>788,827</b>
<b>Reclamation Bonds</b> (Note 5)	<b>120,500</b>	<b>120,500</b>
<b>Mill And Equipment</b> (Note 6)	<b>290,561</b>	<b>297,475</b>
<b>Exploration And Evaluation Assets</b> (Note 7)	<b>10,516,729</b>	<b>10,368,482</b>
<b>Total Assets</b>	<b>\$ 11,338,059</b>	<b>\$ 11,575,284</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable	\$ 145,618	\$ 130,224
Accrued liabilities (Note 8)	224,634	269,645
Due to related parties (Note 10)	-	889
Mortgage payable (Note 11)	145,000	145,000
<b>Total Current Liabilities</b>	<b>515,252</b>	<b>545,758</b>
<b>Restoration Provision</b> (Note 9)	<b>97,636</b>	<b>96,430</b>
<b>Total Liabilities</b>	<b>612,888</b>	<b>642,188</b>
<b>EQUITY</b>		
<b>Share Capital</b> (Note 12)	<b>32,394,615</b>	<b>32,384,675</b>
<b>Share Subscriptions Advances</b>	<b>-</b>	<b>-</b>
<b>Reserves</b>	<b>3,338,198</b>	<b>3,337,036</b>
<b>Deficit</b>	<b>(25,007,642)</b>	<b>(24,788,615)</b>
<b>Total Equity</b>	<b>10,725,171</b>	<b>10,933,096</b>
<b>Total Liabilities And Equity</b>	<b>\$ 11,338,059</b>	<b>\$ 11,575,284</b>

Nature of Operations and Going Concern (Note 1)

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

# KLONDIKE SILVER CORP.

## STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (Expressed In Canadian dollars) (Unaudited)

	<b>Three months ended</b>	
	<b>August 31</b>	<b>August 31</b>
	<b>2017</b>	<b>2016</b>
<b>Expenses</b>		
Accretion	\$ 1,206	\$ 1,148
Amortization	275	28
Compensation and consulting (Note 10)	102,642	48,567
Interest and bank charges	2,342	3,926
Investor relations and promotion	64,564	8,954
Office, rent, and miscellaneous (Note 10)	29,930	18,158
Professional fees (Note 10)	1,947	4,349
Regulatory and stock transfer fees	7,932	5,257
Share based compensation	1,161	329,776
Utilities and communication	7,028	2,104
	<b>(219,027)</b>	<b>(422,267)</b>
<b>Loss Before Other Income</b>		
<b>Other Income</b>		
Recovery of expenses	-	3,761
<b>Other Income</b>	<b>-</b>	<b>3,761</b>
<b>Net Loss And Comprehensive Loss</b>	<b>\$ (219,027)</b>	<b>\$ (418,506)</b>
<b>Loss Per Share – Basic and diluted</b>	<b>\$ (0.00)</b>	<b>\$ (0.01)</b>
<b>Weighted Average Number Of Shares Outstanding,</b>		
Basic and diluted	<b>111,948,110</b>	<b>82,908,909</b>

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

# KLONDIKE SILVER CORP.

## STATEMENTS OF CHANGES IN EQUITY (Expressed In Canadian dollars) (Unaudited)

	SHARE CAPITAL		SHARE SUBSCRIPTIONS	RESERVES	DEFICIT	TOTAL
	NUMBER	AMOUNT				
Balance May 31, 2016	62,805,059	\$ 30,454,669	\$ 589,600	\$ 2,952,010	\$ (23,753,760)	\$ 10,242,519
Issue of shares for cash, private placements						
Non flow-through shares	20,166,667	605,000	-	-	-	605,000
Share issue costs - cash	-	(54,300)	-	-	-	(54,300)
Share subscriptions	-	-	(589,600)	-	-	(589,600)
Exercise of warrants	295,500	21,947	-	(1,262)	-	20,685
Exercised of options	400,000	48,025	-	(21,150)	-	26,875
Share-based compensation	-	-	-	329,776	-	329,776
Comprehensive loss for the period	-	-	-	-	(418,506)	(418,506)
<b>Balance, August 31, 2016</b>	<b>83,667,226</b>	<b>\$ 31,075,341</b>	<b>\$ -</b>	<b>\$ 3,259,374</b>	<b>\$ (24,172,266)</b>	<b>\$ 10,162,449</b>
<b>Balance, May 31, 2017</b>	<b>111,833,893</b>	<b>\$ 32,384,675</b>	<b>\$ -</b>	<b>\$ 3,337,036</b>	<b>\$ (24,788,615)</b>	<b>\$ 10,933,096</b>
<b>Exercise of warrants</b>	<b>142,000</b>	<b>9,940</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,940</b>
<b>Share-based compensation</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,162</b>	<b>-</b>	<b>1,162</b>
<b>Comprehensive loss for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(219,027)</b>	<b>(219,027)</b>
<b>Balance, August 31, 2017</b>	<b>111,975,893</b>	<b>\$ 32,394,615</b>	<b>\$ -</b>	<b>\$ 3,338,198</b>	<b>\$ (25,007,642)</b>	<b>\$ 10,725,171</b>

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

# KLONDIKE SILVER CORP.

## STATEMENTS OF CASH FLOWS (Expressed In Canadian dollars) (Unaudited)

	<b>Three Months Ended</b>	
	<b>August 31, 2017</b>	<b>August 31, 2016</b>
<b>Operating Activities</b>		
Net loss for the period	\$ (219,027)	\$ (418,506)
Non-cash items:		
Accretion and amortization	1,481	1,176
Share-based compensation	1,161	329,776
Recovery of expenses	-	(3,761)
Changes in non-cash operating assets and liabilities:		
Receivables	7,946	3,211
Prepaid expenses	10,845	(19,639)
Accounts payable and accrued liabilities	(48,469)	(136,346)
Due to related parties	(889)	(8,443)
Advances payable	-	(6,958)
Deferred financing cost	-	54,300
<b>Cash Used In Operating Activities</b>	<b>(246,952)</b>	<b>(205,190)</b>
<b>Investing Activities</b>		
Exploration and evaluation assets costs	(122,756)	(46,635)
<b>Cash Used In Investing Activities</b>	<b>(122,756)</b>	<b>(46,635)</b>
<b>Financing Activities</b>		
Proceeds from share issuances, net of finders fees	-	598,260
Share subscriptions	-	(589,600)
Proceeds from exercise of options and warrants	9,940	-
<b>Cash Provided By Financing Activities</b>	<b>9,940</b>	<b>8,660</b>
<b>Increase In Cash During The Period</b>	<b>(359,768)</b>	<b>(243,165)</b>
<b>Cash and cash equivalents– Beginning Of Year</b>	<b>648,220</b>	<b>432,679</b>
<b>Cash and cash equivalents – End Of Period</b>	<b>\$ 288,452</b>	<b>\$ 189,514</b>
<b>Supplementary Cash Flow Information:</b>		
<b>Cash Paid During The Quarter For:</b>		
Interest	\$ 3,244	\$ 3,244
<b>Non-cash Financing And Investing Activities:</b>		
Exploration & evaluation costs included in accounts payable	\$ 352,308	\$ 376,610
Amortization capitalized to exploration and evaluation assets	\$ 6,639	\$ 18,216

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

# **KLONDIKE SILVER CORP.**

## **NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)**

### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Klondike Silver Corp. (the "Company") was incorporated on March 2, 2005 under the laws of the Province of British Columbia, Canada. The Company is a public company listed on the TSX Venture Exchange (the "TSX.V"), trading under the "KS" symbol. The address of the Company's corporate records office and principal place of business is Suite 804 – 750 West Pender Street, Vancouver, British Columbia V6C 2T7. The principal business of the Company is the exploration of mineral properties in Canada and it is considered to be an exploration company.

The Company incurred a net loss of \$(219,027) for the three months ended August 31, 2017 (August 31, 2016 - \$(418,506) and had a working capital surplus (deficit) at August 31, 2017 of \$(115,630) (May 31, 2017 - \$243,069) and a deficit of \$25,007,642 (May 31, 2017 - \$24,788,615). These statements have been prepared on a going concern basis, which presumes the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. While the Company is expending its best efforts in this regard, the outcome of these matters cannot be predicted at this time.

The Company is in the process of acquiring, exploring and developing its exploration and evaluation assets and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, and upon future profitable production. The operations of the Company have primarily been funded by the issuance of common shares and ancillary income. Continued operations of the Company are dependent on the Company's ability to complete equity financing or generate profitable operations in the future. Management's plan in this regard is to secure additional funds through future equity financings, which may not be available or may not be available on reasonable terms. These factors may cast significant doubt on the Company's ability to continue as a going concern. Accordingly, the financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities, contingent obligations and commitments other than in the normal course of business and at amounts different from those in the financial statements.

### **2. BASIS OF PRESENTATION**

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

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

#### **Approval of the financial statements**

These unaudited condensed interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on October 26, 2017.

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 2. BASIS OF PRESENTATION (Continued)

#### b) Basis of Measurement and Presentation

These financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. In the opinion of management, all adjustments (including normal recurring accruals), considered necessary for a fair presentation have been included.

#### c) Foreign Currencies

The presentation currency of the Company and the functional currency of the Company is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing 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 not retranslated.

#### d) Critical Accounting Judgments and Estimates

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

Significant assumptions about the future and other sources of judgments and estimates that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, relate to, but are not limited to, the following:

##### Critical Judgments

- Management is required to assess indications of impairment on its exploration and evaluation assets in accordance with IFRS 6 as described in the Company's significant accounting policies
- The Company assesses the possibility and amount of any impairment loss or write-down as it relates to mill and equipment.



# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 2. BASIS OF PRESENTATION (Continued)

#### d) Critical Accounting Judgments and Estimates (Continued)

##### Critical Judgments (Continued)

- Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

##### Estimates

The preparation of financial statements in accordance with International Financial Reporting Standards ("IFRS") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from management's best estimates, as additional information becomes available. The most sensitive estimates affecting the financial statements were the identification and capitalization of exploration costs, the existence of contingent assets and liabilities, the valuation of share-based compensation and the valuation of deferred income tax assets.

Areas where estimates are significant to the financial statements were as follows:

- the useful lives of mill and equipment which are included in the statements of financial position and the related amortization included in the statement of comprehensive loss;
- the inputs used in determining the net present value of the liability for decommissioning liabilities included in the statement of financial position;
- the inputs used in accounting for stock based compensation expense in the statement of loss and comprehensive loss; and
- the determination of income taxes and the valuation of deferred income tax assets.
- The amount of the constructive obligation

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### a) Financial Instruments and Risk Management

##### Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. Management determines the classification of financial assets and liabilities at initial recognition. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss ("FVTPL")* - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of operations and comprehensive loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Loans and receivables are comprised of receivables.

*Held-to-maturity investments* - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statements of operations and comprehensive loss.

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statements of operations and accumulated other comprehensive income (loss).

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at FVTPL are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### a) Financial Instruments and Risk Management (Continued)

##### Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

*Other financial liabilities* - This category includes amounts due to related parties and accounts payable and accrued liabilities, all of which are recognized at amortized cost.

The Company has classified cash and reclamation bonds as fair value through profit or loss financial assets. Accounts payable, accrued liabilities, advances payable, mortgage payable and due to related parties are classified as other financial liabilities. Management did not identify any material embedded derivatives, which require separate recognition and measurement.

Disclosures about the inputs to financial instrument fair value measurements are made within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data

Financial instruments are exposed to credit, liquidity and market risks. Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Market risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of price risk: currency risk, interest rate risk and other price risk.

Liquidity risk is significant to the Company's statement of financial position. The Company manages these risks by actively pursuing additional share capital issuances to settle its obligations in the normal course of its operating, investing and financing activities. The Company's ability to raise share capital is indirectly related to changing metal prices and the price of gold, silver, zinc and lead in particular. To mitigate this market risk, management of the Company actively pursues a diversification strategy with property holdings focusing on base metals as well as precious metals.

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### b) Cash and Cash Equivalents

Cash and cash equivalents consists of balances with banks, guaranteed investment certificates which are redeemable without penalty, and investments in financial instruments with maturities within three months held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. The Company places its cash and cash investments with institutions of high-credit worthiness.

#### c) Mill and Equipment

The mill comprises a used ore processing plant, used buildings and related equipment stated at cost less accumulated amortization. Amortization on mill and equipment is provided on the straight line method over estimated useful lives ranging from three to twenty years.

#### d) Exploration and Evaluation Assets

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activities, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss. Ancillary income received while the properties are in the exploration stage is credited to the carrying value of the mineral properties. Cost recoveries are credited against specific property costs, as received.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Facts and circumstances relating to impairment as defined in *IFRS 6 exploration and evaluation assets* are as follows:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### d) Exploration and Evaluation Assets (Continued)

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, which management has determined to be indicated by a feasibility study, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

It is management's judgment that none of the Company's exploration and evaluation assets have reached the development stage and as a result are all considered to be exploration and evaluation assets.

Although the Company has taken steps to verify title to exploration and evaluation assets in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

#### e) Impairment of Non-financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets, including the mill, equipment and exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the assets is written down accordingly.

Where it is possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.

An impairment loss is recognized in the statement of operations, except to the extent they reverse gains previously recognized in other comprehensive income or loss.

#### f) Decommissioning Liabilities

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### f) Decommissioning Liabilities (Continued)

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

#### g) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation. The increase in any provision due to the passage of time is recognized as accretion expense.

#### h) Share Capital

##### i) Non-monetary consideration

Agent's warrants issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as consideration for exploration and evaluation assets is based on the trading price of those shares on the TSX.V on the date of the agreement to issue shares as determined by the Board of Directors. Proceeds from unit placements are allocated between shares and warrants issued using the residual method.

##### ii) Flow-through shares

The Company will 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 bifurcates the flow-through share into; i) a flow-through 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. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds, renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### h) Share Capital (Continued)

##### iii) Share-based payments

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date, and each tranche is recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

##### iv) Share issuance costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.

#### i) Loss Per Share

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares issued and outstanding during the period. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Basic and diluted loss per share is equal as outstanding stock options and warrants were all anti-dilutive.

#### j) Income Taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### j) Income Taxes (Continued)

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect

of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. Deferred income tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority.

### 4. FUTURE ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 - Financial Instruments was issued in November 2009 and covers the classification and measurement of financial assets as part of its project to replace IAS 39 - Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is applicable for periods beginning on or after January 1, 2018. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9, effective for annual periods beginning on or after January 1, 2018.

The Company anticipates that the application of the above new and revised standards, amendments and interpretations will have no material impact on its results and financial position. Disclosure changes are anticipated.

### 5. RECLAMATION BONDS

The reclamation bonds at August 31, 2017 of \$120,500 (May 31, 2017 - \$120,500) are recorded at fair value and consist of deposits made by the Company for indemnification of site restoration costs for the Silvana Mine, Sandon Mill, and exploration sites located in BC. Reclamation bonds in the amount of \$100,000 are held in trust for the Company by a company controlled by a former common director.



# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 6. MILL AND EQUIPMENT

	Costs			
	Mill	Equipment*	Land	Total
Balance May 31, 2016	\$ 314,800	\$ 1,324,295	\$ 62,773	\$ 1,701,868
Additions, net of disposals	-	3,301	-	3,301
Balance May 31, 2017	\$ 314,800	\$ 1,327,596	\$ 62,773	\$ 1,705,169
Additions, net of disposals	-	(687)	-	(687)
<b>Balance August 31, 2017</b>	<b>\$ 314,800</b>	<b>\$ 1,326,909</b>	<b>\$ 62,773</b>	<b>\$ 1,704,482</b>

  

	Accumulated Depreciation			
	Mill	Equipment	Land	Total
Balance May 31, 2016	\$ 272,644	\$ 1,061,521	\$ -	\$ 1,334,165
Additions, net of disposals **	42,156	31,373	-	73,529
<b>Balance May 31, 2017</b>	<b>\$ 314,800</b>	<b>\$ 1,092,894</b>	<b>\$ -</b>	<b>\$ 1,407,694</b>
Additions, net of disposals **	-	6,227	-	6,227
<b>Balance August 31, 2017</b>	<b>\$ 314,800</b>	<b>\$ 1,099,121</b>	<b>\$ -</b>	<b>\$ 1,413,921</b>

  

	Net Carrying Amount			
	Mill	Equipment	Land	Total
Balance May 31, 2016	\$ 42,156	\$ 262,774	\$ 62,773	\$ 367,703
Balance May 31, 2017	\$ -	\$ 234,702	\$ 62,773	\$ 297,475
<b>Balance August 31, 2017</b>	<b>\$ -</b>	<b>\$ 227,788</b>	<b>\$ 62,773</b>	<b>\$ 290,561</b>

\*The Company's Rosebery building and land, which had net book values as at August 31, 2017 of \$105,908 and \$62,773 respectively, are 100% encumbered by a first mortgage. (Note 12)

\*\*The Company capitalizes its mill and related equipment amortization to Exploration & Evaluation Assets (Note 7)

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 7. EXPLORATION AND EVALUATION ASSETS

For the quarter ended August 31, 2017:

	Slocan and Sandon BC
Acquisition Costs	<b>\$ 691,278</b>
Exploration Costs	
Opening balance-exploration	<b>9,677,204</b>
Amortization	<b>6,639</b>
Fuel	<b>8,513</b>
Mapping and sampling	<b>70,354</b>
Site administration	<b>12,327</b>
Supplies and maintenance	<b>37,113</b>
Utilities	<b>13,301</b>
	<b>9,825,451</b>
Balance, August 31, 2017	<b>\$10,516,729</b>

For the year ended May 31, 2017:

	Slocan and Sandon BC	Haultain Ontario	Milner Ontario	Total
Acquisition Costs				
Opening balance-acquisition	<b>\$ 691,278</b>	<b>\$ 1</b>	<b>\$ 1</b>	<b>\$ 691,280</b>
Write off	<b>-</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>
	<b>\$ 691,278</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 691,278</b>
Exploration Costs				
Opening balance-exploration	<b>9,342,124</b>	<b>-</b>	<b>-</b>	<b>9,342,124</b>
Amortization	<b>72,863</b>	<b>-</b>	<b>-</b>	<b>72,863</b>
Fuel	<b>34,532</b>	<b>-</b>	<b>-</b>	<b>34,532</b>
Mapping and sampling	<b>130,290</b>	<b>-</b>	<b>-</b>	<b>130,290</b>
Site administration	<b>10,501</b>	<b>-</b>	<b>-</b>	<b>10,501</b>
Supplies and maintenance	<b>63,215</b>	<b>-</b>	<b>-</b>	<b>63,215</b>
Utilities	<b>23,679</b>	<b>-</b>	<b>-</b>	<b>23,679</b>
	<b>9,677,204</b>	<b>-</b>	<b>-</b>	<b>9,677,204</b>
Balance, May 31, 2017	<b>\$10,368,482</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$10,368,482</b>

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 7. EXPLORATION AND EVALUATION ASSETS (Continued)

#### British Columbia Properties

Slocan and Sandon Group, British Columbia

The Slocan and Sandon Group covers an area of approximately 100 square kilometers. The claims include legacy claims, crown-granted claims and acquired or converted mineral claims. Not all claims are contiguous. One claim group is located approximately 7 km northeast of the main claim group and Sandon Mill, while another claim group is 7 km to the southeast.

#### Ontario Properties

In the year ended May 31, 2017, the Company sold 100% of its interest in its Ontario properties (with carrying values of \$2 collectively) for proceeds of \$10,000.

### 8. ACCRUED LIABILITIES

Accrued liabilities are summarized as follows:

	August 31 2017	August 31 2016
Constructive obligation (1)	\$ 235,854	\$ 265,767

(1) Based on the BC government's Chief Inspector's orders issued to all companies with tailings ponds, and as directly requested by the Ministry of Energy and Mines, the Company is required to make improvements to the tailings ponds prior to reopening the Silvana mine at Sandon, BC. The Company originally accrued \$415,000 as a constructive obligation with respect to these improvements and as at August 31, 2017 the remaining balance is \$224,634. This amount is an estimate based on information which has been provided by an independent engineering firm that specializes in geotechnical and environmental consulting and Company estimates.

### 9. RESTORATION PROVISION

The Company has calculated the fair value of the restoration provision as at August 31, 2017 using a pre-tax discount rate of 5.00% (May 31, 2017 – 5.00%). The estimated total future undiscounted cash flows to settle the restoration provision at August 31, 2017 is \$142,500 (May 31, 2017 - \$142,500). The Company has estimated that the payments will be made in 2025.

	August 31 2017	May 2017
Balance, beginning of the quarter	\$ 96,430	\$ 91,838
Accretion	1,206	4,592
Balance, end of the quarter	\$ 97,636	\$ 96,430

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 9. RESTORATION PROVISION (Continued)

The components of this obligation are the removal of equipment currently used at the property as well as costs associated with the reclamation of the camp and work sites on the property. It is the Company's intention to continue exploration work on the property until at least the current mineral claim expiry, for which the key ground is currently between December 2018 and December 2023 without extension. The estimate of future asset retirement obligations is subject to change based on amendments to applicable laws, management's intentions, and mineral claim renewals.

The Company may be contingently liable for other decommissioning liabilities. However, such obligations are not recognized since the fair value cannot be reasonably estimated due to the uncertainty of the extent of reclamation and remediation work and the settlement dates.

### 10. RELATED PARTY BALANCES AND TRANSACTIONS

No amounts were due to related parties at August 31, 2017 and 2016.

The Company entered into the following transactions with related parties. All related party transactions were measured at the amount of consideration established and agreed to by the related parties.

- a) The Company paid \$30,000 (2016 - \$20,000) to one officer and \$Nil (2016 - \$1,500) to another officer for services to the Company.
- b) Share-based payments of \$Nil were attributable to directors and officers (2016 - \$299,900) using the Black-Scholes option pricing model.
- c) The Company paid \$7,500 (2016 - \$11,250) to an officer for rent.
- d) The Company paid \$243 in professional fees (2016 - \$4,349) to a company controlled by a director.

### 11. MORTGAGE PAYABLE

The Company has a first mortgage on the Rosebery property located in Rosebery British Columbia, Canada, in the amount of \$145,000. Interest payments of \$1,081 calculated at 8.95% per annum are due monthly. The mortgage balance is payable December 1, 2017.

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 12. SHARE CAPITAL

- a) Authorized: Unlimited common shares without par value.
- b) During the quarter ended August 31, 2017, 142,000 options were exercised, with an exercise price of \$0.07, for cash proceeds of \$9,940.
- c) Issued during the year ended May 31, 2017:

In January 2017, the Company closed a private placement for total proceeds of \$1,300,000 in two tranches. The terms of the initial \$1,000,000 tranche was: 20,000,000 units at a price of \$0.05 per unit. All units consist of one common share and one share purchase warrant entitling the holder to purchase one additional common share for five years at a price of \$0.05 per share. The terms of the second tranche in the amount of \$300,000 was: 6,000,000 units at a price of \$0.05 per unit. 5,600,000 of these units are flow-through. All units (flow-through or non flow-through) consist of one common share and one non flow-through share purchase warrant entitling the holder to purchase one additional common share for five years at a price of \$0.055 per share. The Company paid finders fees of \$115,000 relating to this private placement.

In June 2016, the Company closed a private placement for 20,166,667 non flow-through units at a price of \$0.03 for total proceeds of \$605,000. All units consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share for four years, at a price of \$0.05 per share. The Company paid finders fees of \$54,300 relating to this private placement.

During fiscal 2017, 2,862,167 options and warrants were exercised for 2,862,167 common shares, with exercise prices ranging from \$0.05-\$0.07, for cash proceeds of \$161,893.

- d) Warrants

A summary of the changes in warrants follows:

	NUMBER OF WARRANTS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
Balance, May 31, 2016	47,425,946	0.10
Issued	46,166,667	0.05
Exercised	(2,262,167)	0.05
Expired	(7,908,000)	0.21
<b>Balance, May 31, 2017</b>	<b>83,422,446</b>	<b>\$ 0.07</b>
Exercised	(142,000)	0.07
<b>Balance, August 31, 2017</b>	<b>83,280,446</b>	<b>\$ 0.07</b>

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 12. SHARE CAPITAL (Continued)

#### e) Warrants (Continued)

As at August 31, 2017, the following share purchase warrants were outstanding:

TOTAL NUMBER OF WARRANTS	EXERCISE PRICES	EXPIRY DATES
1,043,660	\$ 0.15	June 13, 2017
2,020,000	\$ 0.07	December 17, 2017
8,191,286	\$ 0.07	January 30, 2018
5,958,000	\$ 0.07	April 30, 2018
2,590,000	\$ 0.07	June 1, 2018
14,177,500	\$ 0.07	September 24, 2019
4,900,000	\$ 0.07	November 16, 2019
18,400,000	\$ 0.05	June 2, 2020
20,000,000	\$ 0.05	January 31, 2022
6,000,000	\$ 0.055	January 31, 2022
<u>83,280,446</u>		

As at August 31, 2017 the weighted average remaining contractual life of the share purchase warrants was 2.62 years (August 31, 2016 – 2.51 years) and the weighted average exercise price was \$0.06 (August 31, 2016 - \$0.08).

#### f) Stock Options

The Company has a stock option plan that provides for the issuance of options to its directors, officers, employees and consultants. The maximum number of outstanding options must be no more than 10% of the issued and outstanding shares at any point in time.

On April 25, 2017 the Company granted 50,000 incentive stock options to consultants exercisable for a period of five years at a price of \$0.10. The fair value of these stock based compensation options granted was estimated on the date of grant in the amount of \$3,900 using the Black-Scholes valuation model with the following assumptions: i) exercise price per share of \$0.10; ii) expected share price volatility of 155%; iii) risk free interest rate of 1.07%; iv) no dividend yield, v) expected life of 5 years and vi) fully vested on grant.

On January 17, 2017 the Company granted 200,000 incentive stock options to consultants exercisable for a period of five years at a price of \$0.06. The fair value of these stock based compensation options granted was estimated on the date of grant in the amount of \$10,000 using the Black-Scholes valuation model with the following assumptions: i) exercise price per share of \$0.06; ii) expected share price volatility of 155%; iii) risk free interest rate of 1.09%; iv) no dividend yield, v) expected life of 5 years and vi) fully vested on grant.

On December 20, 2016 the Company granted 350,000 incentive stock options to consultants exercisable for a period of five years at a price of \$0.055. The fair value of these stock based compensation options granted was estimated on the date of grant in the amount of \$17,500 using the Black-Scholes valuation model with the following assumptions: i) exercise price per share of \$0.055; ii) expected share price volatility of 153%; iii) risk free interest rate of 1.20%; iv) no dividend yield, v) expected life of 5 years and vi) fully vested on grant.

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 12. SHARE CAPITAL (Continued)

#### f) Stock Options (continued)

On September 1, 2016 the Company granted 350,000 incentive stock options to consultants exercisable for a period of five years at a price of \$0.105. The fair value of these stock based compensation options granted was estimated on the date of grant in the amount of \$29,750 using the Black-Scholes valuation model with the following assumptions: i) exercise price per share of \$0.105; ii) expected share price volatility of 185%; iii) risk free interest rate of 0.56%; iv) no dividend yield, v) expected life of 2 years and vi) fully vested on grant.

On July 14, 2016 the Company granted 2,150,000 incentive stock options, to a director exercisable for a period of five years at a price of \$0.10. The fair value of stock based compensation options granted was estimated on the date of grant in the amount of \$184,900 using the Black-Scholes valuation model with the following assumptions: i) exercise price per share of \$0.10; ii) expected share price volatility of 151%; iii) risk free interest rate of 0.61%; iv) no dividend yield, v) expected life of 5 years and vi) fully vested on grant.

On July 14, 2016 the Company granted 500,000 incentive stock options to an Investor Relations firm, exercisable for a period of two years, at a price of \$0.10. The fair value of stock based compensation options granted was estimated on the date of grant in the amount of \$38,000 using the Black-Scholes valuation model with the following assumptions: i) exercise price per share of \$0.10; ii) expected share price volatility of 184%; iii) risk free interest rate of 0.54%; iv) no dividend yield, v) expected life of 2 years and vi) vesting quarterly over one year.

On June 22, 2016 the Company granted 2,925,000 incentive stock options, with 2,500,000 issued to directors and officers of the Company and 425,000 to employees, all exercisable for a period of five years, all at a price of \$0.05. The fair value of all stock based compensation options granted was estimated on the date of grant in the amount of \$134,550 using the Black-Scholes valuation model with the following assumptions: i) exercise price per share of \$0.05; ii) expected share price volatility of 151%; iii) risk free interest rate of 0.70%; iv) no dividend yield, v) expected life of 5 years and vi) fully vested on grant.

The following is a summary of the changes in stock options:

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding and exercisable at May 31, 2016	2,700,000	0.08
Options granted	6,525,000	0.07
Options exercised	(600,000)	0.07
Options expired	(900,000)	0.08
<b>Outstanding and exercisable at May 31, 2017 and August 31, 2017</b>	<b>7,725,000</b>	<b>\$ 0.08</b>

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 12. SHARE CAPITAL (Continued)

#### f) Stock Options (continued)

As at August 31, 2017 the following stock options were outstanding and exercisable:

NUMBER OF OPTIONS OUTSTANDING	EXERCISE PRICES	EXPIRY DATES
700,000	\$ 0.10	May 8, 2018
75,000	\$ 0.10	July 2, 2018
500,000	\$ 0.10	July 14, 2018
350,000	\$ 0.105	August 31, 2018
425,000	\$ 0.065	April 12, 2019
200,000	\$ 0.07	June 29, 2019
2,925,000	\$ 0.05	June 21, 2021
2,150,000	\$ 0.10	July 13, 2021
350,000	\$ 0.055	December 19, 2021
50,000	\$ 0.10	April 24, 2022
<u>7,725,000</u>		

As at August 31, 2017 the weighted average remaining contractual life of the stock options was 3.05 years (August 31, 2016 – 3.86 years) and the weighted average exercise price was \$0.08 (August 31, 2016 – \$0.08).

#### g) Nature and Purpose of Reserves

The reserves recorded in equity on the Company's statement of financial position from time to time will include "Contributed Surplus", "Warrant Reserve", and "Share-based Payment Reserve".

- "Contributed Surplus" recognizes amounts contributed to the Company shareholders either by way of direct contribution of cash or assets to the Company or delivery of assets to the Company having a fair value in excess of consideration paid by the Company.
- "Warrant Reserve" is used to recognize the fair value of share warrants prior to exercise or expiry.
- "Share-based Payment Reserve" is used to recognize the fair value of stock option grants prior to exercise, expiry or cancellation and the fair value of other share-based consideration paid at the date of payment.



# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 13. MANAGEMENT OF CAPITAL

The Company manages its cash, common shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Board of Directors does not establish a quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. In order to maximize exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account.

There were no changes in the Company's approach to capital management during the quarters ended August 31, 2017 and 2016. The Company is not subject to externally imposed capital requirements.

### 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at August 31, 2017, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	LEVEL	FVTPL	LOANS AND RECEIVABLES/ AMORTIZED COST	TOTAL CARRYING VALUE	FAIR VALUE
<b>Financial assets</b>					
Cash	1	\$ 288,452	\$ -	\$ 288,452	\$ 288,452
Reclamation bonds	2	120,500	-	120,500	120,500
Receivables (a)	2	-	13,574	13,574	13,574
		\$ 408,952	\$ 13,574	\$ 422,526	\$ 422,526
<b>Financial liabilities</b>					
Accounts payable and accrued liabilities (a)	2	\$ -	\$ (145,618)	\$ (145,618)	\$ (145,618)
Due to related parties (a)	2	-	-	-	-
Mortgage payable (a)	2	-	(145,000)	(145,000)	(145,000)
		\$ -	\$ (290,618)	\$ (290,618)	\$ (290,618)

(a) Fair value approximates the carrying amounts due to the short-term nature.

The carrying values of the Company's financial liabilities were a reasonable approximation of fair value.

# KLONDIKE SILVER CORP.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED AUGUST 31, 2017 AND 2016 (Expressed in Canadian dollars) (Unaudited)

### 14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

The Company is exposed to potential loss from various risks including commodity price risk, interest rate risk, currency risk, credit risk and liquidity risk. Based on the Company's operations the liquidity risk and commodity price risk are considered the most significant.

#### a) Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risk associated with fluctuations in the market prices of base and precious metals including gold, silver, zinc and lead, and the outlook for these metals. The Company does not have any hedging or other derivative contracts respecting its operations.

Market prices for metals historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators. The Company has elected not to actively manage its commodity price risk, as the nature of Company's business is in exploration.

#### b) Liquidity Risk

The liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk through careful management of its financial obligations in relation to its cash position. Using budgeting processes the Company manages its liquidity requirements based on expected cash flow to ensure there are adequate funds to meet the short term obligations during the period.

In the past the Company has been able to maintain its liquidity position through private placements. However, the variable market conditions make it uncertain whether the Company can continue to raise adequate funds to meet its financial obligations.

### 15. Flow-through Resource Expenditures

During the year ended May 31, 2017 the Company raised \$280,000 in flow-through share financing. As of August 31, 2017 a balance of \$160,080 remained to be spent on exploration expenditures on the Company's Canadian exploration properties by January 31, 2019.

**Klondike Silver Corp.**  
**Form 51-102F1**  
**Management Discussion and Analysis**  
**For the Three Month Period Ended August 31, 2017**

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**For the quarter ended August 31, 2017**

This Management Discussion and Analysis (“MD&A”) should be read in conjunction with the financial statements of Klondike Silver Corp. (“Klondike Silver” or the “Company”) for the quarter ended August 31, 2017 which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) annual reporting period.

The Company’s financial statements have been prepared on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company’s ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. While the Company is extending its best efforts in this regard, the outcome of these matters cannot be predicted at this time, these financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

This MD&A has been prepared as of October 26, 2017. All amounts are expressed in Canadian dollars unless otherwise stated.

**Forward Looking Information**

This MD&A includes some statements that may be considered “forward-looking statements”. All statements in this discussion that address the Company’s expectations about future exploration and development are forward-looking statements. Although the Company believes the expectations presented in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration successes, availability of capital and financing, and general economic, market, and business conditions. Readers are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

**Risks and Uncertainties**

The Company is subject to a number of risks and uncertainties due to the nature of its business. The Company’s exploration and development activities expose the Company to various financial and operational risks that could have a significant impact on its level of operating cash flows in the future. Readers are advised to study and consider risk factors stressed below.

The following are identified as main risk factors that could cause actual results to differ materially from those stated in any forward-looking statements made by, or on behalf of, the Company.

**Financing**

The Company’s future financial success depends on the ability to raise additional capital from the issue of shares or the discovery of properties which could be economically justifiable to develop. Such development could take years to complete and resulting income, if any, is difficult to determine. The sales value of any mineralization potentially discovered by the Company is largely dependent upon factors beyond the Company’s control, such as the market value of the products produced.

**Klondike Silver Corp.**  
**Form 51-102F1**  
**Management Discussion and Analysis**  
**For the Three Month Period Ended August 31, 2017**

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**General Resource Exploration Risks and Competitive Conditions**

The resource exploration industry is an inherently risky business with significant capital expenditures and volatile metals markets. The marketability of any minerals discovered may be affected by numerous factors that are beyond the Company's control and which cannot be predicted, such as market fluctuations, mineral markets, processing equipment, changes to government regulations, including those relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. This industry is intensely competitive and there is no guarantee that, even if commercial quantities are discovered, a profitable market will exist for their sale. The Company competes with other junior exploration companies for the acquisition of mineral claims as well as for the engagement of qualified contractors. Metal prices have fluctuated widely in recent years, and they are determined in international markets over which the Company has no influence.

**Governmental Regulation**

Regulatory standards continue to change, making the review process longer, more complex and therefore more expensive. Exploration and development on the Company's properties are affected by government regulations relating to such matters as environmental protection, health, safety and labour, mining law reform, restrictions on production, price control, tax increases, maintenance of claims, and tenure. There is no assurance that future changes in such regulations couldn't result in additional expenses and capital expenditures, decreasing availability of capital, increased competition, reserve uncertainty, title risks, and delays in operations. The Company relies on the expertise and commitment of its management team, advisors, employees and contractors to ensure compliance with current laws.

**Company Overview**

Klondike Silver is a Canadian listed public company with its shares traded on the TSX Venture Exchange under the symbol "KS" as a Tier 2 company.

The Company is a resource exploration stage company engaged in the acquisition and exploration of mineral properties. For the funding of property acquisitions and exploration that the Company conducts, the Company depends on the issuance of shares from the treasury to investors and does not use long term debt. Once a body of commercial ore is found, the Company may offer to a major mining company the opportunity to acquire an interest in a property in return for funding by the major mining company, of all or part of the exploration and development of the property. The Company currently has no revenues from mineral producing operations and holds properties in British Columbia and the Yukon.

Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com) and also on the Company's website at [www.klondikesilver.com](http://www.klondikesilver.com).

**Overall Performance**

Acquisition and exploration expenses during the quarter ended August 31, 2017 were \$148,247 (August 31, 2016 - \$63,551). Exploration and evaluation asset expenditures during the period were primarily due to \$70,354 of mapping and sampling and \$37,113 of supplies and maintenance on the Slocan and Sandon BC claims.

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***Property Summaries and Exploration Updates***

***British Columbia Properties***

***Slocan Silver Camp***

The Slocan Silver Camp is centered around the historic town of Sandon, located 50 kilometres northwest of Nelson in south-eastern, British Columbia. Sandon is 14.5 kilometres east of New Denver and year round access is gained via an all-weather gravel road branching off Highway 31A.

Klondike Silver's claims in the Slocan Camp cover an area of approximately 100 square kilometers and include many of the historical past-producing silver-lead-zinc prospects of the camp, including the Silvana Mine. The Slocan Camp includes a fully operational 100 tonne per day mill situated at Sandon. The claims include legacy claims, crown-granted claims, and recently acquired or converted mineral claims. Not all of the ground within the Camp is held by Klondike Silver and not all claims are contiguous

The area around Sandon has been divided into distinct areas for exploration, which include the Wonderful property around the town of Sandon, the Payne Mine area to the north, to the far northeast, the Jackson Basin exploration area and the Hewitt-Van Roi camp southwest of Sandon. Additionally, the Rambler property, situated between the Payne and Jackson areas, the Silverton Creek and Sandon Peak properties on the south slope of Silver Ridge and the Mt. Con property are in early stages of exploration.

The central area of the Sandon camp, includes one of the largest past producing mines in the region as well as numerous smaller past producers, and has been the focus of much of Klondike Silver's surface and underground exploration for the past several years. In the fall of 2007 the Company started rehabilitated old underground workings at its Silvana Mine and the Wonderful Mine, both located within five kilometres of the Company's Sandon mill.

**Silvana Mine**

The principal source of the Slocan Camp's historic silver-lead-zinc production comes from the Main Lode structure which is more than 8 km long, extending from Silverton on Slocan Lake to Sandon in the east through the 'Silver Ridge' of the Selkirk Mountains. The Silvana production came from less than 1.5 km of the Main Lode. The Company holds approximately 1.5 km of the ground to the west of this productive zone, to within 0.5 km of the Mammoth Mine.

About 1.5 million tons of ore was locally processed or direct-shipped from these historic operations. Total recovered production to 1964 from the western segment was 9.5 million ounces of silver, 45,000 tons of lead and 60,000 tons of zinc. The eastern segment yielded approximately 9 million ounces of silver, 43,000 tons of lead and 13,000 tons of zinc. Almost all of this recovered production came from a zone within the Main Lode lying roughly between 1,200 m and 1,700 m elevation. The central unexplored portion of this prospective deep zone passes for 4 km beneath 1,500 m to nearly 2,400 m approximate elevations of the steep-sided Silver Ridge. This area received initial underground exploration westerly from the Silversmith Mine area in the late 1940s by the Kelowna Exploration Company using a program of lateral drift mining and diamond drilling.

This section was explored, developed and mined by Silmonac's successors (including Kam-Kotia Mines Limited, Silvana Mines Inc., Dickenson Mines Limited and Tremenco Resources Ltd.) almost continuously from 1970 to 1993. Historic production is about 8 million ounces of silver and over 30,000 tons each of lead and zinc from some 550,000 tons of mill feed, representing 30% of the area's silver and 25% of its lead production. This makes the Silvana operation the second largest single producer of silver and lead in the Slocan camp after the Standard Mine. It should be noted that the silver-to-lead ratio from Silvana production was higher than production from the Standard Mine, an enhancement that improves the potential economics of Silvana's typical mill feed.

At the Silvana Mine, Company personnel have identified several small but potentially mineable areas beyond the limits of productive former stopes developed in the early 1970s. These areas lie roughly 30 meters or more in

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elevation above the main 4625 Level adit access. Detailed re-examination of historic records (including assays from diamond drill holes and chip/channel samples) show the possibility of mineralized areas amenable to small-scale mining using best-practice grade control to achieve desired economic returns.

Currently Klondike has chosen to hold off on milling given the current economic situation, in particular the price of Silver. Klondike is focused on exploration of current and potentially new silver deposits to mill once market conditions improve. Klondike will keep up maintenance at the mill to allow for a quick start up once management is satisfied with the potential returns on milling.

The overall work plan includes the replacing of a timbered ore-chute on 4625 Level at the base of the gravity muck pass from 4755 Level, rehabilitating the skipway and manway between the two levels, re-establishing compressed air, water and electrical services and bringing mining equipment up to 4755 Level. The initial test-mining will be by sub-drifting in the Main Lode structure towards the identified areas of interest. Channel and muck sampling will be carried out to identify the best sections for stopping. The muck from the development would be evaluated and stockpiled as appropriate.

Wonderful Property

Early work in the Camp going back to 2004, concentrated on the Wonderful property, located a few hundred meters northwest of the Klondike Silver mill. Older geochemical and geophysical surveys (1981) indicated that possible extensions to known veins might exist in this area and subsequently two of the old, caved portals (No. 2 and No. 4), were located and opened by backhoe excavation.

Trenching at the 'A' portal, also known as the McLanders portal, exposed a galena-rich vein through a strike length of approximately 25 meters. The McLanders vein is open at both ends, exposed at the head of a small adit at its east end and buried in overburden at its west end. When the vein was exposed seven samples were taken which returned values with high grade silver (to 4384 g/tonne or 135.8 oz/ton) and lead contents, as well as a high silver to lead ratio which were encouraging and led to further trenching, extending the strike length of the McLanders vein.

Drilling in 2005 confirmed the down-dip extension (to approximately 48 meters) of the McLanders vein, but total sulphide content as well as lead and silver grades were considerably less than those exposed at surface. Mineralization in the McLanders vein is highly variable within the laterally continuous, fault structure, and this feature is common to all vein systems in the camp. Exploration therefore necessitates testing mineralized structures on fairly closely spaced intervals, by both drilling and trenching. Other drill holes, in areas with VLF-EM geophysical anomalies generally intersected fault structures with little or no mineralization. In 2008 samples were taken from the McLanders vein. The vein in this area has been traced up slope for an additional 9 meters of strike length, giving a total vein exposure of 33 meters. Five grab samples taken from the exposed portion of the vein have been assayed with the following results:

Sample	Pb %	Zn %	Ag oz/t	Type
1	79.93	0.80	197.6	rock subcrop
2	75.37	1.50	117.2	rock subcrop
3	44.72	2.28	63.1	rock subcrop
4	67.51	2.21	161.4	rock subcrop
5	71.10	3.11	113.2	rock subcrop

During 2007 the Company completed the rehabilitation of the underground workings of the No. 4 level, with raise development and the rehabilitation of the No. 3 level completed in the summer of 2008. Mapping and chip sampling of the raise and rehabilitated No. 3 level were completed in September 2008.

Twelve sample sections were taken along the length of a raise (the connecting shaft between two levels) driven from the lowest No. 4 level (1144m elevation) up to the No. 3 level (1192m elevation). The raise follows a mineralized vein on the Wonderful system across all lithologies for a length of 54.5m at 49° and connects with the mineralization on the No. 3 level. The raise confirms connectivity of 53m of the mineralized vein on the No. 4 level

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with 152m of vein mapped 48m higher on No. 3 level. Eighteen sample sections were taken from the No.3 level with both the raise and the No. 3 level geology showing the same trend. Results of all 30 samples are discussed in a press release dated December 8, 2008.

Payne property

Exploration of the Payne property, located on the slopes and ridges north of Carpenter Creek, was restricted to a reconnaissance soil survey in 2007. The soil grid was extended to the north in 2008, and several anomalous areas recognized from the 2007 survey required infill lines and sampling. In 2009, an anomalous zone of lead and silver soil geochemistry was targeted for further exploration. The zone was located to the west of the Payne mine and was thought to be an extension of known mineralization to the southeast. Magnetism and electromagnetic surveys were conducted in the area followed by 500m of trenching. Vein exposures in the trenches were limited to discreet narrow veins with only slight alteration. Host rock competency is low in the area, and northwest trending fault structures are common, neither conducive to hosting mineralization. However, a rock unit similar to that hosting the Payne mine is only 100m to the northeast and along strike with the veins discovered in trenching.

In 2010 the Company focused its efforts on a second anomalous zone on the Payne property. The zone was first explored by prospecting and geological mapping followed by 350m of trenching.

The Jackson basin

The Jackson basin, located in the northeastern part of the Slocan Silver Camp, is centered on several small, but reportedly high grade northeast-trending veins. Known BC Minfile deposits and occurrences include the Jackson, Corrigan, Towser and Zuni and prospecting by Klondike Silver discovered a new vein, or extension of a known vein, located in the northwestern part of the area.

Exploration in 2007 included extending an earlier soil grid, and trenching one of the known occurrences, Stenson, (which contained grab samples with up to 53 oz/ton silver) with only limited success. A subsequent ground geophysical survey demonstrated more clearly the trend of this vein. Soil sampling in the Jackson basin was completed in 2008, and a ground geophysical survey was extended between the known occurrences along areas marked by prominent airborne linears.

During 2009 the Company received assays for a number of samples taken from 10 trenches. The trenching uncovered a 20cm diameter boulder in Trench 3 of mainly galena which contained 72.42% Pb, 2.41% Zn, 2895g/tonne Ag. Trench 5 had a fault zone with samples assaying up to 17.59% Pb, 1.12% Zn, 687g/tonne Ag. Mineralized quartz veins were discovered in 5 of the 10 trenches.

Based on known showings, and projected trends of lode structures, an exploration program was conducted in the northern part of the basin, referred to as the Stenson Property, in the 2010 field season. Past soil and geophysical surveys on the Stenson by Klondike Silver confirmed the east to north-easterly trend of Stenson mineralization, helping direct a trenching program which exposed a silver-lead-zinc vein. Analyses of selected samples of the vein returned values up to 53 oz/ton Ag, 6.38% Pb and 10.49% Zn. Future exploration is intended to focus on the western slopes of Stenson Creek and include some fill-in soil geochemical and geophysical surveys followed by trenching in an attempt to expose the mineralized structure.

Hewitt-Van Roi area

The Hewitt and Van Roi mines, in the southern part of the Slocan Silver camp, have produced more than 146 million grams (5,149,998 ozs) silver, 10,800,000 kg (23,809,924 lbs) lead and 9,370,000 kg (20,657,313 lbs) zinc. The 2008 exploration program included a regional soil survey to the west of the two past producing mines, additional prospecting and both reconnaissance and detailed geological mapping. In 2009 infill soil geochemistry and geophysics were conducted to identify targets for diamond drilling which was carried out in the fall of 2009. Early in 2010 the company contracted an Induced Polarization survey which identified two excellent targets for a second phase of drilling, one of which is on strike with the past producing mines.

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Ministry of Energy and Mines Request and Update

The Ministry of Energy and Mines for the province of British Columbia (MEM) completed a site inspection at the Sandon Mine site outlining a few issues needing addressing. The Company has engaged the Engineering firm Golder Associates Ltd. (Golder) to complete inspection reports related to the Underground Mining Structure's and Tailings Storage Facilities. This work included an update to the current Operation, Maintenance and Surveillance manual; an update to the Emergency Preparedness and Response Plan; completion of the Annual Dam Safety Inspection report; and appropriate design and construction of armouring along Carpenter Creek to protect these structures. The Company has received some reports from Golder and has received a proposal to complete the outstanding Ministry requests. The Golder proposal summarizing this work has been submitted to MEM.

**Yukon Property**

Klondike Silver's Stump claims in the Yukon are in good standing to February 4, 2022

**Results of Operations, Quarter ended August 31, 2017**

For the quarter ended August 31, 2017, the Company had a net loss of \$219,027 (August 31, 2016 - \$418,506). The significant differences between the two periods include:

- An increase in compensation and consulting to \$102,642 (August 31, 2016 - \$48,567) due to increased staff in the current year.
- An increase in investor relation and promotion to \$64,564 (August 31, 2016 - \$8,954) due to the engagement of an IR firm in the current year.
- A decrease in share based compensation to \$1,161 (August 31, 2016 - \$329,776) due to the granting of options in the prior year.

**Summary of Quarterly Results**

The following table sets forth selected quarterly financial information for each of the last eight quarters with the figures for each quarter in Canadian dollars.

<b>Quarter Ending</b>	<b>Other Income / (Expense)</b>	<b>Net Loss</b>	<b>Net Loss per Share</b>
August 31, 2017	\$ Nil	\$ 219,027	\$ 0.00
May 31, 2017	Nil	257,483	0.00
February 28, 2017	8,998	231,527	0.00
November 30, 2016	Nil	127,339	0.00
August 31, 2016	3,761	418,506	0.01
May 31, 2016	8,566	56,808	0.00
February 29, 2016	(1,093)	57,556	0.00
November 30, 2015	(1,094)	60,552	0.00

**Off Balance Sheet Arrangements**

At August 31, 2017, the Company did not have any off balance sheet arrangements to disclose.

**Liquidity and Capital Resources**

The Company has financed its operations primarily by the issue of share capital and loans from related parties.

The continued operations of the Company are dependent on its ability to complete sufficient public equity financing, or generate profitable operations in the future.



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The Company had working capital (deficiency) of \$(104,983) at August 31, 2017 (August 31, 2016 - \$(311,479)). The Company does not have sufficient working capital to meet its obligations for the next twelve months.

The Company's capital needs in the current and previous years have been met by the following equity financings: Year ended May 31, 2017:

In January 2017, the Company closed a private placement for total proceeds of \$1,300,000 in two tranches. The terms of the initial \$1,000,000 tranche was: 20,000,000 units at a price of \$0.05 per unit. All units consist of one common share and one share purchase warrant entitling the holder to purchase one additional common share for five years at a price of \$0.05 per share. The terms of the second tranche in the amount of \$300,000 was: 6,000,000 units at a price of \$0.05 per unit. 5,600,000 of these units are flow-through. All units (flow-through or non flow-through) consist of one common share and one non flow-through share purchase warrant entitling the holder to purchase one additional common share for five years at a price of \$0.055 per share. The Company paid finders fees of \$115,000 relating to this private placement.

In June 2016, the Company closed a private placement for 20,166,667 non flow-through units at a price of \$0.03 for total proceeds of \$605,000. All units consisted of one common share and one share purchase warrant entitling the holder to purchase one additional common share for four years, at a price of \$0.05 per share. The Company paid finders fees of \$54,300 relating to this private placement.

During fiscal 2017, 2,862,167 options and warrants were exercised for 2,862,167 common shares, with exercise prices ranging from \$0.05-\$0.07, for cash proceeds of \$161,893.

#### **Transactions with Related Parties**

No amounts were due to related parties at August 31, 2017 and 2016.

#### Related Party Transactions

The Company entered into the following transactions and had the following balances payable with related parties. All related party transactions were measured at the amount of consideration established and agreed to by the related parties.

- a) The Company paid \$30,000 (2016 - \$20,000) to one officer and \$Nil (2016 - \$1,500) to another officer for services to the Company.
- b) Share-based payments of \$Nil were attributable to directors and officers (2016 - \$299,900) using the Black-Scholes option pricing model.
- c) The Company paid \$7,500 (2016 - \$11,250) to an officer for rent.
- d) The Company paid \$243 in professional fees (2016 - \$4,349) to a company controlled by a director.

#### **Provisions, Contingent Liabilities and Contingent Assets**

Under IFRS, restoration provisions are measured at the inflation adjusted present value of the expected expenditures required to settle the obligation using a pre-tax discount rate reflecting the time value of money and risks specific to the liability.

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**Financial Instruments and Other Instruments**

Financial instruments are exposed to commodity price risk, liquidity and market risks.

Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risk associated with fluctuations in the market prices of base and precious metals including gold, silver, zinc and lead, and the outlook for these metals. The Company does not have any hedging or other derivative contracts respecting its operations. Market prices for metals historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators. The Company has elected not to actively manage its commodity price risk, as the nature of Company's business is in exploration.

Liquidity Risk

The liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk through careful management of its financial obligations in relation to its cash position. Using budgeting processes the Company manages its liquidity requirements based on expected cash flow to ensure there are adequate funds to meet the short term obligations during the year. During the past year the Company has been able to maintain its liquidity through private placements.

**Outstanding Share Data as of the date of this report:**

The authorized share capital consists of an unlimited number of common shares.

**Common shares** – 111,975,893 common shares were issued and outstanding.

**Warrants** - The Company has the following warrants outstanding:

TOTAL NUMBER OF WARRANTS	EXERCISE PRICES	EXPIRY DATES
2,020,000	\$ 0.07	December 17, 2017
8,191,286	\$ 0.07	February 3, 2018
5,958,000	\$ 0.07	May 11, 2018
2,590,000	\$ 0.07	June 1, 2018
14,177,500	\$ 0.07	September 24, 2019
4,900,000	\$ 0.07	November 16, 2019
18,400,000	\$ 0.05	June 2, 2020
20,000,000	\$ 0.05	January 31, 2022
6,000,000	\$ 0.055	January 31, 2022
<u>82,236,786</u>		

**Options** – The Company has the following options outstanding:

TOTAL NUMBER OF OPTIONS	EXERCISE PRICES	EXPIRY DATES
700,000	\$ 0.10	May 8, 2018
75,000	\$ 0.10	July 2, 2018
500,000	\$ 0.10	July 13, 2018
350,000	\$ 0.105	August 31, 2018

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425,000	\$ 0.065	April 23, 2019
200,000	\$ 0.07	June 29, 2019
2,925,000	\$ 0.05	June 21, 2021
2,150,000	\$ 0.10	July 13, 2021
350,000	\$ 0.055	Dec 19, 2021
50,000	\$ 0.06	Jan 16, 2022
7,725,000		

**Investor Relations**

Paradox Public Relations has been contracted by the company to provide investor relations services. Paradox's focus is on developing and expanding the Company's communications with the investment community through a comprehensive investor relations program.

**Disclosure Controls and Procedures**

Disclosure controls and procedures ("DC&P") are intended to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized and reported within the time periods specified by securities regulations and that information required to be disclosed is accumulated and communicated to management. Internal controls over financial reporting ("ICFR") are intended to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in accordance with IFRS.

TSX Venture listed companies are not required to provide representations in the annual filings relating to the establishment and maintenance of DC&P and ICFR, as defined in National Instrument 52-109. In particular, the CEO and CFO certifying officers do not make any representations relating to the establishment and maintenance of (a) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation, and (b) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's IFRS. The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in their certificates regarding the absence of misrepresentations and fair disclosure of financial information. Investors should be aware that inherent limitation on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in National Instrument 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.