



Condensed Interim Consolidated Financial Statements

(Unaudited - expressed in thousands of Canadian dollars)

For the three and nine months ended September 30, 2018 and 2017

NOTICE OF NO AUDITOR REVIEW OF

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by management in accordance with International Financial Reporting Standards and reviewed by the Audit Committee and Board of Directors of the Company.

The Company's independent auditor has not performed a review of these condensed interim consolidated financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed interim consolidated financial statements by an entity's auditor.

Havilah Mining Corporation
Condensed Interim Consolidated Statements of Financial Position
(Unaudited - expressed in thousands of Canadian dollars)

	Note	September 30 2018	December 31 2017
		\$	\$
Assets			
Current			
Cash and cash equivalents		7,768	5,683
Inventories	6	7,528	12,112
Prepaid expenses and other	7	707	2,223
		16,003	20,018
Non-current			
Mineral properties, plant and equipment, net	8	41,355	54,394
Total assets		57,358	74,412
Liabilities			
Current			
Accounts payable	9	754	9,859
Accrued compensation and benefits		338	821
Flow-through share premium liability	11	51	-
		1,143	10,680
Non-current			
Reclamation obligations	12	2,423	2,306
Total liabilities		3,566	12,986
Shareholders' equity			
Share capital	13	18,915	-
Share-based payment reserve	13	324	-
Other capital reserves		-	129,346
Retained earnings (deficit)		34,553	(67,920)
		53,792	61,426
Total liabilities and shareholders' equity		57,358	74,412

Nature of operations and going concern – Note 1
 Commitments and Contingencies – Note 17
 Subsequent Events – Note 18

On behalf of the Board:

/s/ Blair Schultz
 Chairman

/s/ James Haggarty
 Director

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

Havilah Mining Corporation

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss

For the three and nine months ended September 30, 2018 and 2017

(Unaudited - expressed in thousands of Canadian dollars)

	Note	Three months ended September 30		Nine months ended September 30	
		2018	2017	2018	2017
		\$	\$	\$	\$
Revenues		394	9,027	12,219	27,553
Cost of sales					
Production costs		2,563	7,364	18,871	28,425
Depreciation and depletion		750	1,262	3,050	4,225
Write-down of inventories		-	3,369	2,539	6,875
		(2,919)	(2,968)	(12,241)	(11,972)
Other operating expenses					
General and administrative		614	969	869	3,028
Loss from operations		(3,533)	(3,937)	(13,110)	(15,000)
Finance charges, net		(455)	(1,611)	(4,486)	(4,277)
Foreign currency gain, net		(28)	617	(1,056)	1,205
Impairment of mineral properties	8	(9,674)	-	(9,674)	-
Gain (loss) on equipment disposal		24	(33)	24	(33)
Other income		10	16	669	46
Net loss and comprehensive loss for the period		(13,656)	(4,948)	(27,633)	(18,059)
Loss per share					
Basic and diluted		(0.53)	(0.22)	(1.16)	(0.79)
Weighted average number of shares outstanding					
Basic and diluted		25,810,456	22,755,979	23,785,327	22,755,979

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

Havilah Mining Corporation
Condensed Interim Consolidated Statements of Cash Flows
For the nine months ended September 30, 2018 and 2017
(Unaudited - expressed in thousands of Canadian dollars)

Note	Nine months ended September 30	
	2018	2017
	\$	\$
Cash (used in) provided by:		
Operating activities		
Net loss and comprehensive loss for the period	(27,633)	(18,059)
Depreciation and depletion	3,660	4,102
Write-down of production inventories	472	991
Foreign exchange, net	1,056	(1,205)
Share-based payments	324	724
(Gain) loss on equipment disposal	(24)	33
Corporate G&A allocations	240	2,439
Financing charges	4,486	4,158
Accretion on reclamation obligation	117	119
Impairment on mineral properties, plant and equipment	9,674	-
Changes in non-cash working capital items		
Inventories	4,112	(5,962)
Prepaid expenses and other	1,516	(215)
Accounts payable	(9,105)	4,036
Accrued compensation and benefits	(483)	491
	(11,588)	(8,348)
Investing activities		
Expenditures on mineral property, plant and equipment	(325)	(15,416)
Interest received	-	1
Proceeds on disposal of equipment	54	-
	(271)	(15,415)
Financing activities		
Proceeds from private placement, net of share issuance costs	10,203	-
Funding and expenses paid by Klondex	3,741	19,923
	13,944	19,923
Effect of foreign exchange on cash balances	-	(11)
Increase (decrease) in cash	2,085	(3,851)
Cash and cash equivalents - beginning of period	5,683	8,161
Cash and cash equivalents - end of period	7,768	4,310
Components of cash:		
Cash	3,268	4,310
Cash equivalents	4,500	-

Supplemental cash flow information – Note 16

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

Havilah Mining Corporation
Condensed Interim Consolidated Statements of Changes in Equity
(Unaudited - expressed in thousands of Canadian dollars)

	Note	Number of common shares	Share capital	Share-based payment reserve	Other capital reserves	Retained Earnings (deficit)	Total
			\$	\$	\$	\$	\$
Balance, December 31, 2016		-	-	-	84,730	(16,727)	68,003
Funding and expenses paid by Klondex Mines Ltd. ("Klondex")		-	-	-	25,894	-	25,894
Net loss for the period		-	-	-	-	(18,059)	(18,059)
Balance, September 30, 2017		-	-	-	110,624	(34,786)	75,838
Funding and expenses paid by Klondex		-	-	-	18,722	-	18,722
Net loss for the year		-	-	-	-	(33,134)	(33,134)
Balance, December 31, 2017		-	-	-	129,346	(67,920)	61,426
Funding and expenses paid by Klondex		-	-	-	9,523	-	9,523
Shares issued pursuant to Klondex Arrangement Agreement	2	22,755,979	8,763	-	(8,763)	-	-
Adjustment to Shares issued in connection with Klondex Arrangement Agreement	2	-	-	-	(130,106)	130,106	-
Shares Issued by private placement		3,539,332	9,243	-	-	-	9,243
Shares Issued by private placement		2,380,000	960	-	-	-	960
Flow-through share premium (Note 11)		-	(51)	-	-	-	(51)
Share based payments		-	-	324	-	-	324
Loss for the period		-	-	-	-	(27,633)	(27,633)
Balance, September 30, 2018		28,675,311	18,915	324	-	34,553	53,792

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

Havilah Mining Corporation

Notes to the Condensed Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2018 and 2017

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1. Nature of operations

Havilah Mining Corporation ("Havilah" or the "Company") is engaged in the acquisition, exploration, development and extraction of precious metals. The Company owns and operates the Rice Lake property as well as the Ogama-Rockland exploration property, both located in Manitoba, Canada. The Company was incorporated under the British Columbia Business Corporations Act on May 3, 2018. Havilah's registered office is located at suite 2200, 885 West Georgia Street, Vancouver, British Columbia, V6C 3E8 and its head office is located at 121 King Street West, Suite 830, Toronto, Ontario M5H 3T9.

Havilah Mining Corporation is a public company which is listed on the TSX-V under the symbol "HMC".

2. Basis of presentation

On March 16, 2018, Klondex Mines Ltd. ("Klondex") entered into an arrangement agreement (the "Arrangement Agreement") with Hecla Mining Company ("Hecla") and 1156291 B.C. Unlimited Liability Company, a wholly-owned subsidiary of Hecla. Under the terms of the Arrangement Agreement, Hecla acquired all the outstanding common shares of Klondex, and Klondex shareholders received consideration consisting of cash, shares of Hecla common stock, or a combination of cash and Hecla common stock, plus shares of a new company, Havilah Mining Corporation, formed to hold Klondex's Canadian assets comprised of Klondex Canada Ltd. and Bison Gold Resources, Inc.

After the Arrangement Agreement was completed on July 20, 2018, Havilah holds Klondex's Canadian assets, which are comprised of Klondex Canada Ltd., which holds the True North gold mine and mill ("True North") and Bison Gold Resources Inc. which holds the Ogama-Rockland properties ("Ogama"), the 10% buy-back rights on the Snow Lake Property, and various early-stage assets located in Manitoba and Ontario, Canada. Klondex placed True North into production in the third quarter of 2016 and operations continued until January 9, 2018, when the True North underground mining operations were placed on care and maintenance. On April 20, 2018, Klondex commenced processing of tailings from the impoundment facility at True North.

As the shareholders of Klondex continued to hold their respective interests in Havilah, there was no resultant change in control of Havilah. The Arrangement Agreement has thus been determined to be a capital reorganization (the "Reorganization"), and is excluded from the scope of IFRS 3, Business Combinations. Under the continuity of interest basis of accounting, the assets and liabilities transferred are recorded at their pre-arrangement carrying values. The statements of loss and comprehensive loss include the historical income and expenses related to Klondex and Bison. Up to the date of the Reorganization, amounts advanced by Klondex to Havilah have been reflected as other capital reserves in the consolidated statements of changes in equity. The carve-out entity did not operate as a separate legal entity and as such, the financial statements may not be indicative of the financial performance of the carve-out entity on a standalone basis and do not necessarily reflect what its results of operations, financial position and cash flows would have been had the carve-out entity operated as an independent entity during the periods presented.

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The carrying value of the net assets received pursuant to the Arrangement Agreement, as at July 20, 2018 are as follows:

	\$
Assets:	
Cash and cash equivalents	5
Inventories	6,142
Prepaid expenses and other assets	744
Mineral properties, plant and equipment, net	52,171
Total Assets	59,062
Liabilities:	
Accounts payable	111
Accrued compensation and benefits	181
Reclamation obligations	2,384
Carrying value of net assets	56,386
Accumulated losses	82,483
Subtotal	138,869
Shares issued pursuant to the Arrangement Agreement	8,763
Adjustment for shares issued in connection with the Arrangement Agreement	(130,106)

An adjustment of \$130,106 was made through accumulated deficit to reconcile: i) the carrying values of the net assets contributed and recorded under the continuity of interest basis of accounting, to the fair value of the common shares issued upon closing of the Arrangement Agreement; and ii) the allocated accumulated losses which amounted to \$82,483 up to the close of the Arrangement Agreement.

Statement of compliance and functional currency

These condensed interim consolidated financial statements have been presented 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”), applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting*.

These condensed interim consolidated financial statements have been prepared on a historical cost basis.

These condensed interim consolidated financial statements are presented in Canadian dollars, which is the functional currency of the Company’s entities.

The accounts of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Inter-company transactions, balances and unrealized gains or losses on transactions are eliminated.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

These condensed interim consolidated financial statements were approved by the Board of Directors on November 26, 2018.

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3. Summary of significant accounting policies

In the preparation of these condensed interim consolidated financial statements, the Company has used the same accounting policies and methods of computation as in the most recent audited carve-out financial statements prepared under IFRS for the Canadian Spinco of Klondex Mines Ltd. for the year ended December 31, 2017, except as outlined below:

Recently adopted

Effective January 1, 2018, the Company adopted IFRS 15 *Revenue from Contracts with Customers* ("IFRS 15") and IFRS 9 *Financial Instruments* ("IFRS 9").

a) IFRS 9

The Company adopted all of the requirements of IFRS 9 *Financial Instruments* ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 *Financial Instruments: Recognition and Measurement* ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward in IFRS 9, so the Company's accounting policy with respect to financial liabilities is unchanged. As a result of the adoption of IFRS 9, management has changed its accounting policy for financial assets retrospectively, for assets that continued to be recognized at the date of initial application. The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

b) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost. The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics.

Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or if the Company has opted to measure them at FVTPL.

The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018. The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

	Original classification IAS 39	New classification IFRS 9
Cash and cash equivalents	amortized cost	amortized cost
Accounts payable and accrued liabilities	amortized cost	amortized cost

The Company did not restate prior periods as there was no impact at the date of initial application. The adoption of IFRS 9 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

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c) Measurement

Financial assets at FVTOCI

Elected investments in equity instruments at FVTOCI are initially recognized at fair value plus transaction costs. Subsequently they are measured at fair value, with gains and losses recognized in other comprehensive income (loss).

Financial assets and liabilities at amortized cost

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

Financial assets and liabilities at FVTPL

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the consolidated statements of net (loss) income. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the consolidated statements of net (loss) income in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

d) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the consolidated statements of net (loss) income, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

e) Derecognition

Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity. Gains and losses on derecognition are generally recognized in the consolidated statements of net (loss) income. However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive income (loss).

Financial liabilities

The Company derecognizes financial liabilities only when its obligations under the financial liabilities are discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets.

The adoption of IFRS 9 did not have a material impact on the Company's financial statements.

f) IFRS 15

The Company adopted IFRS 15 using the modified retrospective method, which required it to apply the new revenue standard to (i) all new revenue contracts entered into after January 1, 2018, and (ii) revenue contracts which were not completed as of January 1, 2018. In accordance with this approach, the

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consolidated revenues for periods prior to January 1, 2018 were not revised and there was no cumulative effect of the adoption of IFRS 15 as of January 1, 2018.

The following is the Company's new accounting policy for revenue from contracts with customers under IFRS 15:

The Company recognizes revenue from contracts with customers for the sale of gold at the point in time when it transfers control over to the customers, which occurs upon delivery. Revenue is measured based on the market metal prices at time of settlement.

The Company has concluded that there were no significant changes in the accounting for concentrate sales as a result of the transition to IFRS 15 as the timing of control of the concentrate passing to the customer are unchanged from policies applied prior to the adoption of IFRS 15.

The Company did not restate prior periods as the adoption of IFRS 15 resulted in no impact to the opening accumulated deficit nor to the opening balance of accumulated comprehensive income on January 1, 2018.

Accounting standards issued but not yet effective

The following new standard has been issued but not yet applied:

g) IFRS 16 – Leases. IFRS 16 Leases will replace IAS 17 Leases

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019. This standard will affect the way in which the Company accounts for its operating leases and will increase the related disclosures. The Company is currently assessing the impact that these standards will have on the consolidated financial statements.

Other accounting pronouncements with future effective dates are either not applicable or are not expected to have a material impact on the Company's consolidated financial statements.

4. Critical accounting estimates and judgments

The preparation of consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions about future events that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the annual consolidated financial statements and the reported amounts of gain and expenses during the reporting period. Such estimates and assumptions, which by their nature are uncertain, affect the carrying value of assets, impact decisions as to when exploration and evaluation costs should be capitalized or expensed. Other significant estimates made by the Company include factors affecting valuations of income tax accounts. The Company regularly reviews its estimates and assumptions; however, actual results could differ from these estimates and these differences could be material. Revisions to estimates and the resulting impacts on the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

5. Business combinations and asset acquisitions

Bison Gold Resources, Inc. asset acquisition

During the year ended December 31, 2017, the Company acquired all the issued and outstanding common shares of Bison Gold Resources Inc. ("Bison"), which owned, among other things, the Ogama property, by exchanging shares of Bison for shares of the Company. As a result of this transaction, the Company

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recorded an addition to mineral properties of \$8,888, which represents substantially all of the consideration transferred to Bison and assets acquired by the Company.

6. Inventories

	September 30 2018	December 31 2017
	\$	\$
Supplies	2,750	2,900
Production related inventories:		
Stockpiles	-	1,817
In-process	1,524	6,815
Doré finished goods	3,254	580
	7,528	12,112

As at September 30, 2018 the stockpile, in-process, and doré finished goods inventories included approximately \$1,228 (2017 - \$991) of capitalized non-cash depreciation and depletion costs.

Write-down of production inventories

The period-end market value of the Company's production-related inventories is determined in part by using the period-end prices (per ounce) of gold and is sensitive to this input. Due to increases in production costs, the Company's application of its lower of average cost or net realizable value accounting policy resulted in write-downs of production inventories. Write-downs have resulted solely from the Company's application of its lower of average cost or net realizable value accounting policy and were unrelated to any ounce adjustments or changes to recovery rates.

The following table provides information about the Company's write-downs (in thousands, except per ounce amounts):

	September 30 2018	December 31 2017
	\$	\$
Type of previously incurred cost		
Cash production costs	2,067	7,219
Allocated depreciation and depletion	472	1,087
Write-down of production inventories	2,539	8,306
Prices used in write-down calculation		
Price per gold ounce - US\$	1,187	1,297

7. Prepaid expenses and other

	September 30 2018	December 31 2017
	\$	\$
Sales tax receivable	361	1,878
Deposits	208	-
Other	138	345
	707	2,223

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Notes to the Condensed Interim Consolidated Financial Statements For the three and nine months ended September 30, 2018 and 2017 (Unaudited - expressed in thousands of Canadian dollars)

8. Mining properties, plant and equipment

	Note	Mineral properties \$	Plant and equipment \$	Exploration and evaluation \$	Total \$
Cost					
Balance at December 31, 2016		35,083	28,571	1,956	65,610
Bison acquisition	5	-	-	8,888	8,888
Additions		16,995	2,137	-	19,132
Transfers		1,956	-	(1,956)	-
Dispositions		-	(307)	-	(307)
Impairments		(19,827)	(8,403)	-	(28,230)
Balance at December 31, 2017		34,207	21,998	8,888	65,093
Additions		22	303	-	325
Disposals		-	(63)	-	(63)
Write-down		(12,194)	-	-	(12,194)
Balance at September 30, 2018		22,035	22,238	8,888	53,161
Accumulated depreciation and depletion					
Balance at December 31, 2016		(584)	(3,789)	-	(4,373)
Additions		(1,703)	(4,688)	-	(6,391)
Dispositions		-	65	-	65
Balance at December 31, 2017		(2,287)	(8,412)	-	(10,699)
Additions		(233)	(3,427)	-	(3,660)
Disposals		-	33	-	33
Write-down		2,520	-	-	2,520
Balance at September 30, 2018		-	(11,806)	-	(11,806)
Net – December 31, 2017		31,920	13,586	8,888	54,394
Net – September 30, 2018		22,035	10,432	8,888	41,355

At September 30, 2018 the Company recorded approximately \$330 (2017 - \$208) of construction in process within Plant and equipment. During the three months ended September 30, 2018, the Company completed an evaluation of existing mine plans related the True North underground mine as well as future development plans for the Company's properties. The Company determined that the existing mine plans would not be economic at the current commodity price levels and the net development costs (\$9,674) associated with these mine plans would be written off during the period. This net write-down of \$9,674 includes the write-down of mineral property costs above of 12,194 and the write-down of the mineral property accumulated amortization of 2,520.

9. Accounts payable and accrued liabilities

	September 30 2018	December 31 2017
	\$	\$
Accounts payable	594	3,086
Accrued liabilities	160	6,773
	754	9,859

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10. Debt

As at September 30, 2018 and December 31, 2017, the Company had no outstanding Debt.

Intercompany Debt Interest

Intercompany interest charges to Havilah are from Klondex for previously advanced funds through various intercompany debt obligations and reflect an estimated cost of operating Havilah's business on a standalone basis. Interest is charged at a rate per annum equal to the sum of a LIBOR rate and 7.0% on the unpaid principal balance. Actual outstanding intercompany obligations are not included in these financial statements as such amounts are not obligations of Havilah on a go-forward basis.

Finance charges, net

The following table summarizes the components of Finance charges:

	Three months ended		Nine months ended	
	September	September	September	September
	30, 2018	30, 2017	30, 2018	30, 2017
	\$	\$	\$	\$
Intercompany debt expense	416	1,570	4,368	4,153
Reclamation obligation accretion	38	40	117	119
Bank charges	1	1	2	6
Interest income	-	-	(1)	(1)
	455	1,611	4,486	4,277

11. Flow-through share premium liability

The flow-through share premium liability balance as at September 30, 2018 of \$51 (December 31, 2017 - \$nil) arose in connection with the flow-through share offering the Company completed on September 19, 2018 (Note 13(b)). The reported amount is the unamortized balance of the premium received from issuing the flow-through shares. This balance does not represent a cash liability to the Company. The flow-through premium liability will be amortized to the statement of comprehensive loss pro-rata with the amount of qualifying flow-through expenditures that are incurred by the Company. The Company is committed to incurring on qualifying Canadian exploration expenses as defined under the Income Act, Canada ("Qualifying CEE") in the amount of \$725 with respect to the flow-through share financing completed on September 19, 2018. None of the Qualifying CEE will be available to the Company for future deduction from taxable income. As at September 30, 2018, the Company had not incurred any of the Qualifying CEE and accordingly, did not recognize a flow-through premium recovery during the nine months ended September 30, 2018.

12. Reclamation obligation

The reclamation obligation is related to True North and is estimated based upon present value techniques of expected cash flows, estimates of inflation, and a credit adjusted risk-free discount rate.

The undiscounted amount of estimated cash flows required to settle the reclamation obligation was estimated at \$9,824 as at September 30, 2018 (December 31, 2017 – \$9,824).

The key assumptions on which the provision estimates were based for the nine months ended September 30, 2018 and year ended December 31, 2017 are:

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- Expected timing of the cash flows is based on the estimated useful life of True North. The expenditures are expected to occur between 2023-2041.
- The inflation rate used for the nine months ended September 30, 2018 is 2.40% (year ended December 31, 2017 – 2.40%).
- The discount rate used for the nine months ended September 30, 2018 is 6.80% (year ended December 31, 2017 – 6.80%).

The following table provides a summary of changes in the reclamation obligation:

	\$
Balance at December 31, 2016	2,237
Accretion expense	158
Changes in estimates and assumptions	(89)
Balance at December 31, 2017	2,306
Accretion expense	117
Balance at September 30, 2018	2,423

As at September 30, 2018, the Company's asset retirement obligations were secured by the plant assets in Canada.

13. Share Capital

a) **Authorized:** Unlimited common shares without par value.

b) Shares issued

The following table provides the changes in share capital pursuant to the Arrangement Agreement:

	Number of shares	Amount \$
Balance at December 31, 2016 and 2017	-	-
Shares issued pursuant to Klondex Arrangement Agreement	22,755,979	8,763
Shares Issued by private placement	3,539,332	9,243
Balance at July 20, 2018	26,295,311	18,006

Private Placements

On July 20, 2018, as part of the Arrangement Agreement (Note 2), Hecla subscribed for 3,539,332 common shares of the Company, on a private placement basis at a price of \$2.61 per share for a gross purchase price of \$9,243 (US\$7,000).

On September 19, 2018, the Company issued 655,000 units ("Units") of the Company, with each Unit comprised of one common share of the Company ("Common Share") and one-half of one Common Share purchase warrant (each whole Common Share purchase warrant, a "Warrant"), at a price of \$0.36 per Unit, and 1,725,000 units ("FT Units") of the Company, with each FT Unit comprised of one Common Share issued on a flow-through basis (within the meaning of the Income Tax Act (Canada), as amended), and one-half of one Warrant, at a price of \$0.42 per FT Unit. Each Warrant will entitle the holder thereof to

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purchase one additional Common Share at a price of \$0.50 per Common Share for a period of 36 months following the closing of the Offering. The fair value of the flow-through shares was determined to be \$673 with the remaining \$51 being allocated to flow-through premium liability (Note 11). No value has been allocated to the warrants issued.

c) Options

The Company has adopted a share option plan that allows for the issuance of up to 10% of the issued and outstanding shares as incentive share options to directors, officers, employees and consultants to the Company. Share options granted under the plan may be subject to vesting provisions as determined by the Board of Directors.

The options vest as to one-third immediately and one-third after the first and second anniversaries of the date of grant.

The Company's share options outstanding as at December 31, 2017 and September 30, 2018 and the changes for the periods then ended are as follows:

	Number	Weighted average exercise price
		\$
Balance as at December 31, 2017	-	-
Granted – August 15, 2018	1,550,000	0.36
Balance as at September 30, 2018	1,550,000	0.36

The total share-based payment expense recorded during the three and nine months ended September 30, 2018 was \$324 and \$324 (2017: \$305 and \$724). The amounts related to 2017 are based on share-based payment expense allocated from Klondex.

The following table summarizes information about the share options as at September 30, 2018:

Exercise price per share of options outstanding	Number of options outstanding	Weighted average remaining life (years) options outstanding	Weighted exercise price of options exercisable	Number of options exercisable	Expiry date
\$0.36	1,550,000	4.88	\$0.36	516,666	August 15, 2023

The fair value of options recognized in the period has been estimated using the Black-Scholes Pricing Model with the following assumptions on the grant date of the options:

Issue date	Expected Option life (years)	Risk free interest rate	Dividend yield	Expected volatility	Weighted average fair value
August 15, 2018	5.00	2.18%	nil	80%	\$0.21

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d) Warrants

The Company's warrants outstanding as at December 31, 2017 and September 30, 2018 and the changes for the periods then ended are as follows:

	Number	Weighted average exercise price
		\$
Balance as at December 31, 2017	-	-
Transferred under the Arrangement Agreement – July 20, 2018	625,000	\$1.52
Transferred under the Arrangement Agreement – July 20, 2018	625,000	\$4.24
Granted – September 19, 2018	1,190,000	\$0.50
Balance as at September 30, 2018	2,440,000	\$1.72

The balance of warrants outstanding as at September 30, 2018 is as follows:

Expiry Date	Exercise Price \$	Remaining Life (Years)	Warrants Outstanding
February 11, 2029	\$1.52	10.38	625,000
April 3, 2032	\$4.24	13.52	625,000
September 19, 2021	\$0.50	2.97	1,190,000

14. Related party transactions

During the three and nine months ended September 30, 2018 and 2017, the Company incurred the following charges by directors and officers of the Company and by companies controlled by directors and officers of the Company. All fees have been reported as general and administrative expenses:

	Three months ended		Nine months ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
	\$	\$	\$	\$
Professional fees	4,756	-	4,756	-
Directors' fees	59,078	-	59,078	-
Management fees	156,175	-	156,175	-
Share-based payments	321,623	-	321,623	-
	541,632	-	541,632	-

At September 30, 2018, directors and officers or their related companies were owed \$nil (December 31, 2017 – \$nil) in respect of the services rendered. These are non-interest bearing with standard payment terms.

Key management includes directors and executive officers of the Company. Other than the amounts disclosed above, there was no other compensation paid or payable to key management for employee services for the reported periods.

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15. Financial Instruments and Capital Risk Management

The Company's financial instruments consist of cash equivalents, deposits, accounts payable and accrued liabilities. These financial instruments are classified as financial assets and liabilities at amortized cost and are reported at amortized cost.

The Company's activities potentially expose it to a variety of financial risks, including liquidity risk, interest rate risk, foreign exchange currency risk, and commodity price risk.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations when they become due. As at September 30, 2018 the Company had working capital of \$14.1 million. Management believes that the Company has sufficient financial resources to meet its obligations as they come due.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is currently not exposed to any interest rate risk as the Company does not have any interest-bearing debt obligations or any other interest-bearing liabilities.

Foreign Exchange Risk

The Company's functional currency is the Canadian dollar. Foreign currency risk is the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Company's historical foreign currency gains and losses primarily relate to amounts on intercompany loan balances and US dollar transactions with vendors. Subsequent to the Arrangement Agreement the Company has had minimal US dollar transactions and does not hold any intercompany loans denominated in US dollars.

Commodity Price Risk

The Company is exposed to the risk of fluctuations in prevailing market commodity prices on the gold it produces. Prior to completion of the Arrangement Agreement, the Company's parent, Klondex, would mitigate price risk by entering into derivative financial instruments, such as fixed forward sales and collars. As of September 30, 2018, the Company itself had not entered into any agreements to mitigate its exposure to market price risk.

16. Supplemental Cash Flow Information

Investing and financing activities that do not have a direct impact on the current cash flows are excluded from the cash flow statements. The following transactions were excluded from the statement of cash flows:

During the nine months ended September 30, 2018:

The issuance of 22,755,979 common shares valued at \$8,763 pursuant to the Klondex Arrangement Agreement (Note 13(b)).

During the nine months ended September 30, 2017 there were no non-cash transactions.

The Company paid or accrued \$nil for income taxes during the nine months ended September 30, 2018 (2017 - \$nil).

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17. Commitments and Contingencies

Following completion of the plan of Arrangement Agreement involving Hecla and Klondex, the Company issued to Waterton Nevada Splitter, LLC ("Waterton") a warrant to acquire up to 625,000 common shares of the Company at an exercise price of C\$4.24 per share and expiring April 3, 2032 (the "Havilah Replacement Warrant"). The Havilah Replacement Warrant was issued to Waterton along with a replacement warrant from Hecla (collectively the "Replacement Warrants") in accordance with the terms of the warrant certificate issued by Klondex to Waterton on October 3, 2016 (the "Original Warrant Certificate").

On September 11, 2018 Waterton filed a claim with the Ontario Superior Court of Justice alleging breach of contract against Hecla, Klondex Mines Unlimited Liability Company and the Company for failure to honour the terms of the Original Warrant Certificate and, or in the alternative, a declaration that the Replacement Warrants do not satisfy Hecla's obligations as successor-in-interest to Klondex's obligations under the Original Warrant Certificate and a new replacement warrant. Waterton claims, among other things, that the Replacement Warrants purport to apportion the value of the original Warrant Certificate between the Hecla and Havilah warrants using the aggregate transaction value of the Arrangement (as determined unilaterally by Hecla), rather than protecting the economic value of the Original Warrant Certificate, and that with the Replacement Warrants, Hecla and Havilah failed to protect the economic value of Waterton's Original Warrant immediately prior to the consummation of the Arrangement. Instead it is alleged that in breach of contractual obligations, Hecla and the Company made an arbitrary allocation in a manner convenient to them, without regard for the economic value of the Original Warrant. The Company, as a party to this claim, is working with counsel to evaluate the merits of the claim by Waterton and, at this time, cannot determine the possible outcome of this matter.

18. Subsequent Events

Pursuant to the appointment of Ron Clayton to the Board of Directors, the Company granted Mr. Clayton 175,000 options to purchase common shares of the Company pursuant to the Company's Share Option Plan. Such options have an exercise price of \$0.31 per common share and expire on November 26, 2023. The options vest as to one-third immediately and one-third after the first and second anniversaries of the date of grant. The grant of options is subject to regulatory approval.