

KLONDIKE SILVER

OUR VISION: Silver/Lead/Zinc Production

Financial Statements
For the Year Ended May 31, 2018

(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Klondike Silver Corp.

Report on the financial statements

We have audited the accompanying financial statements of Klondike Silver Corp., which comprise the statements of financial position as at May 31, 2018 and 2017, and the statements of loss and comprehensive loss, changes in equity, and cash flows for the years then ended and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Klondike Silver Corp. as at May 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada

"Morgan & Company LLP"

September 26, 2018

Chartered Professional Accountants

KLONDIKE SILVER CORP.

STATEMENTS OF FINANCIAL POSITION (Expressed in Canadian dollars)

	May 31, 2018	May 31, 2017
ASSETS		
Current		
Cash and cash equivalents	\$ 70,922	\$ 648,220
Receivables	11,171	21,520
Prepaid expenses	21,214	119,087
Total Current Assets	103,307	788,827
Reclamation Bonds (Note 5)	120,500	120,500
Mill And Equipment (Note 6)	279,153	297,475
Exploration And Evaluation Assets (Note 7)	11,166,094	10,368,482
Total Assets	\$ 11,669,054	\$ 11,575,284
LIABILITIES		
Current		
Accounts payable	\$ 136,552	\$ 130,224
Accrued liabilities (Note 8)	189,776	269,645
Due to related parties (Note 10)	2,838	889
Mortgage payable (Note 11)	145,000	145,000
Total Current Liabilities	474,166	545,758
Restoration Provision (Note 9)	101,251	96,430
Total Liabilities	575,417	642,188
EQUITY		
Share Capital (Note 12)	33,264,835	32,384,675
Reserves	3,832,578	3,337,036
Deficit	(26,003,776)	(24,788,615)
Total Equity	11,093,637	10,933,096
Total Liabilities And Equity	\$ 11,669,054	\$ 11,575,284

Nature of Operations and Going Concern (Note 1)

These financial statements were approved for issue by the Board of Directors on September 26, 2018.

They are signed on the Company's behalf by:

“Thomas Kennedy”
Director

“Glen Harder”
Director

The accompanying notes are an integral part of these financial statements

KLONDIKE SILVER CORP.

STATEMENTS OF LOSS AND COMPREHENSIVE LOSS (Expressed in Canadian dollars)

	May 31,	
	2018	2017
Expenses		
Accretion	\$ 4,821	\$ 4,592
Amortization	2,150	665
Compensation and consulting (Note 10)	339,634	266,110
Interest and bank charges	15,648	13,797
Investor relations and promotion	214,399	189,187
Office, rent, and miscellaneous (Note 10)	140,655	93,750
Professional fees (Note 10)	24,838	25,334
Regulatory and stock transfer fees	50,949	30,066
Share based compensation	395,542	417,438
Utilities and communication	26,525	6,675
	(1,215,161)	(1,047,614)
Other Income		
Gain on sale of exploration and evaluation assets	-	8,998
Recovery of expenses	-	3,761
Other Income	-	12,759
Net Loss And Comprehensive Loss	\$ (1,215,161)	\$ (1,034,855)
Loss Per Share – Basic and diluted	\$ (0.01)	\$ (0.01)
Weighted Average Number Of Shares Outstanding,		
Basic and diluted	120,668,389	92,013,484

The accompanying notes are an integral part of these financial statements

KLONDIKE SILVER CORP.

STATEMENTS OF CHANGES IN EQUITY (Expressed In Canadian dollars)

	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	40,566,667	1,625,000	-	-	-	1,625,000
Flow-through shares	5,600,000	280,000	-	-	-	280,000
Share issue costs - cash	-	(169,300)	-	-	-	(169,300)
Share subscriptions	-	-	(589,600)	-	-	(589,600)
Exercise of warrants	2,262,167	124,281	-	(1,262)	-	123,019
Exercised of options	600,000	70,025	-	(31,150)	-	38,875
Share-based compensation	-	-	-	417,438	-	417,438
Comprehensive loss for the period	-	-	-	-	(1,034,855)	(1,034,855)
Balance, May 31, 2017	111,833,893	\$ 32,384,675	\$ -	\$ 3,337,036	\$ (24,788,615)	\$ 10,933,096
Issue of shares for cash, private placements						
Non flow-through shares	20,000,000	900,000	-	100,000	-	1,000,000
Share issue costs - cash	-	(82,700)	-	-	-	(82,700)
Exercise of warrants	998,000	62,860	-	-	-	62,860
Share-based compensation	-	-	-	395,542	-	395,542
Comprehensive loss for the period	-	-	-	-	(1,215,161)	(1,215,161)
Balance, May 31, 2018	132,831,893	\$ 33,264,835	\$ -	\$ 3,832,578	\$ (26,003,776)	\$ 11,093,637

The accompanying notes are an integral part of these financial statements

KLONDIKE SILVER CORP.

STATEMENTS OF CASH FLOWS (Expressed in Canadian dollars)

	Years Ended May 31,	
	2018	2017
Operating Activities		
Net loss for the year	\$ (1,215,161)	\$ (1,034,855)
Non-cash items:		
Accretion and amortization	6,971	5,257
Share-based compensation	395,542	417,438
Gain from sale of exploration and evaluation assets	-	(8,998)
Recovery of expenses	-	(3,761)
Changes in non-cash operating assets and liabilities:		
Receivables	10,349	(12,819)
Prepaid expenses	97,873	(112,885)
Accounts payable and accrued liabilities	16,339	(36,897)
Due to related parties	1,949	(11,315)
Advances payable	-	(6,958)
Deferred financing cost	-	54,300
Cash Used In Operating Activities	(686,138)	(751,493)
Investing Activities		
Equipment	(10,960)	(3,301)
Exploration and evaluation assets costs	(860,360)	(337,659)
Cash Used In Investing Activities	(871,320)	(340,960)
Financing Activities		
Proceeds from share issuances, net of finders fees	917,300	1,735,701
Share subscriptions	-	(589,600)
Proceeds from exercise of options and warrants	62,860	161,893
Cash Provided By Financing Activities	980,160	1,307,994
Decrease In Cash During The Year	(577,298)	215,541
Cash and cash equivalents– Beginning Of Year	648,220	432,679
Cash and cash equivalents – End Of Year	\$ 70,922	\$ 648,220
Supplementary Cash Flow Information:		
Cash Paid During The Period For:		
Interest	\$ 12,978	\$ 12,978
Non-cash Financing And Investing Activities:		
Exploration & evaluation costs included in accounts payable	\$ 288,587	\$ 378,467
Amortization capitalized to exploration and evaluation assets	\$ 27,132	\$ 72,864

The accompanying notes are an integral part of these financial statements

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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 \$(1,215,161) for the year ended May 31, 2018 (May 31, 2017 - \$(1,034,855) and had a working capital surplus (deficit) at May 31, 2018 of \$(370,859) (May 31, 2017 - \$243,069) and a deficit of \$26,003,776 (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 financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on September 26, 2018.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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 YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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 YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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 YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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 YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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 YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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 YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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 YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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 YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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.

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 May 31, 2018 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 YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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	-	10,272	-	10,272
Balance May 31, 2018	\$ 314,800	\$ 1,337,868	\$ 62,773	\$ 1,715,441

	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
Balance May 31, 2017	\$ 314,800	\$ 1,092,894	\$ -	\$ 1,407,694
Additions, net of disposals **	-	28,594	-	28,594
Balance May 31, 2018	\$ 314,800	\$ 1,121,488	\$ -	\$ 1,436,288

	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
Balance May 31, 2018	\$ -	\$ 216,380	\$ 62,773	\$ 279,153

*The Company's Rosebery building and land, which had net book values as at May 31, 2018 of \$98,159 and \$62,773 respectively, are 100% encumbered by a first mortgage. (Note 11)

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

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

7. EXPLORATION AND EVALUATION ASSETS

For the year ended May 31, 2018:

	Slocan and Sandon BC	Horwood ON	Total
Acquisition Costs	\$ 691,278	\$ 1,000	\$ 692,278
Exploration Costs			
Opening balance-exploration	9,677,204	-	9,677,204
Amortization	27,132	-	27,132
Fuel	55,882	-	55,882
Mapping and sampling	502,038	-	502,038
Site administration	19,309	-	19,309
Supplies and maintenance	136,257	-	136,257
Survey	42,693	-	42,693
Utilities	13,301	-	13,301
	<u>10,473,816</u>	<u>-</u>	<u>10,473,816</u>
Balance, May 31, 2018	<u>\$ 11,165,094</u>	<u>\$ 1,000</u>	<u>\$ 11,166,094</u>

For the year ended May 31, 2017:

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

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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.

In October 2017 the Company purchased 17 mineral claims in the Horwood township of the Porcupine mining division, Ontario from a related party for \$1,000. The claims are subject to a pre-existing 3% NSR.

8. ACCRUED LIABILITIES

Accrued liabilities are summarized as follows:

	May 31,	
	2018	2017
Professional fees	\$ 11,000	\$ 11,220
Constructive obligation (1)	\$ 178,776	\$ 258,425
	\$ 189,776	\$ 269,645

(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 May 31, 2018 the remaining balance is \$178,776. 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 May 31, 2018 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 May 31, 2018 is \$142,500 (May 31, 2017 - \$142,500). The Company has estimated that the payments will be made in 2025.

	May 31,	
	2018	2017
Balance, beginning of the year	\$ 96,430	\$ 91,838
Accretion	4,821	4,592
	\$ 101,251	\$ 96,430

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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

Due to Related parties balances consisted of the following*:

	May 31 2018	May 31 2017
Due to Directors, Officers and Spouses	\$ 509	\$ 889
Due to Company controlled by a Director	2,329	-
	\$ 2,838	\$ 889

* Unsecured, non-interest bearing, with no fixed terms of repayment.

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 was charged \$120,000 (2017 - \$102,500 by one officer and \$Nil (2017 - \$1,500) by another officer for services to the Company.
- b) Share-based payments of \$324,000 were attributable to directors and officers (2017 - \$299,900) using the Black-Scholes option pricing model.
- c) The Company was charged \$32,500 (2017 - \$20,000) by an officer for rent.
- d) The Company was charged \$9,234 in professional fees (2017 - \$12,194) by a company controlled by a director.
- e) The Company was charged \$3,452 (2017 - \$Nil) in interest by a significant shareholder.
- f) A significant shareholder contributed \$400,000 (2017 - \$Nil) for 8,000,000 shares in the December 2017 private placement.

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, 2018.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

12. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.

b) Issued during the year ended May 31, 2018:

In January 2018, the Company closed a private placement tranche for total proceeds of \$500,000. The terms were: 10,000,000 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 Company paid finders fees of \$32,700 relating to this private placement tranche.

In December 2017, the Company closed a private placement tranche for total proceeds of \$500,000. The terms were: 10,000,000 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 Company paid finders fees of \$50,000 relating to this private placement tranche.

During the year ended May 31, 28, 2018, 998,000 warrants were exercised for cash proceeds of \$62,860.

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.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

12. SHARE CAPITAL (Continued)

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
Balance, May 31, 2017	83,422,446	\$ 0.06
Issued	20,000,000	0.05
Exercised	(998,000)	0.06
Expired	(16,706,946)	0.07
Balance, May 31, 2018	85,717,500	\$ 0.06

As at May 31, 2018, the following share purchase warrants were outstanding:

TOTAL NUMBER OF WARRANTS	EXERCISE PRICES	EXPIRY DATES
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
19,850,000	\$ 0.05	January 31, 2022
5,800,000	\$ 0.055	January 31, 2022
10,000,000	\$ 0.05	December 1, 2022
10,000,000	\$ 0.05	January 24, 2023
85,717,500		

As at May 31, 2018 the weighted average remaining contractual life of the share purchase warrants was 2.90 years (May 31, 2017 – 2.84 years) and the weighted average exercise price was \$0.06 (May 31, 2017 - \$0.06).

e) 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 March 26, 2018 the Company granted 500,000 incentive stock options to employees exercisable for a period of two 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 \$18,000 using the Black-Scholes valuation model with the following assumptions: i) exercise price per share of \$0.10; ii) expected share price volatility of 103%; iii) risk free interest rate of 1.88%; iv) no dividend yield, v) expected life of 2 years and vi) fully vested on grant.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

12. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

On January 14, 2018 the Company granted 6,970,000 incentive stock options to a director, employees and 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 \$376,380 using the Black-Scholes valuation model with the following assumptions: i) exercise price per share of \$0.06; ii) expected share price volatility of 148%; iii) risk free interest rate of 1.97%; iv) no dividend yield, v) expected life of 5 years and vi) fully vested on grant.

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.

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.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

12. SHARE CAPITAL (Continued)

e) Stock Options (Continued)

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
Outstanding and exercisable at May 31, 2017	7,725,000	\$ 0.08
Options granted	7,470,000	0.06
Options cancelled/expired	(3,300,000)	0.09
Outstanding and exercisable at May 31, 2018	11,895,000	\$ 0.06

As at May 31, 2018 the following stock options were outstanding and exercisable:

NUMBER OF OPTIONS OUTSTANDING	EXERCISE PRICES	EXPIRY DATES
75,000	\$ 0.10	July 2, 2018
500,000	\$ 0.10	July 14, 2018
350,000	\$ 0.105	August 31, 2018
275,000	\$ 0.065	April 23, 2019
200,000	\$ 0.07	June 29, 2019
500,000	\$ 0.10	March 25, 2020
2,625,000	\$ 0.05	June 21, 2021
350,000	\$ 0.055	December 19, 2021
50,000	\$ 0.10	April 24, 2022
6,970,000	\$ 0.06	January 13, 2023
11,895,000		

As at May 31, 2018 the weighted average remaining contractual life of the stock options was 3.63 years (May 31, 2017 – 3.30 years) and the weighted average exercise price was \$0.06 (May 31, 2017 – \$0.08).

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NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

12. SHARE CAPITAL (Continued)

f) 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.

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 years ended May 31, 2018 and 2017. The Company is not subject to externally imposed capital requirements.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

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 May 31, 2018, 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
Financial assets					
Cash	1	\$ 70,922	\$ -	\$ 70,922	\$ 70,922
Reclamation bonds	2	120,500	-	120,500	120,500
Receivables (a)	2	-	11,171	11,171	11,171
		\$ 191,422	\$ 11,171	\$ 202,593	\$ 202,593
Financial liabilities					
Accounts payable and accrued liabilities (a)	2	\$ -	\$ (326,328)	\$ (326,328)	\$ (326,328)
Due to related parties (a)	2	-	(2,838)	(2,838)	(2,838)
Mortgage payable (a)	2	-	(145,000)	(145,000)	(145,000)
		\$ -	\$ (474,166)	\$ (474,166)	\$ (474,166)

(i) 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.

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.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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. INCOME TAXES

a) Provision for Income Taxes

The Company's provision for income taxes for the years ended May 31, 2018 and 2017 differs from the amounts computed by applying the statutory income tax rates to the loss before income taxes as a result of the following:

	2018	2017
Statutory Canadian corporate tax rate	27%	26%
Expected current income tax recovery	\$ (328,000)	\$ (269,000)
Non-deductible permanent differences	108,000	110,000
Other	(22,000)	(44,000)
Effect of rate change	(94,000)	-
Change in tax assets not recognized	336,000	203,000
Deferred income tax recovery	\$ -	\$ -

b) Deferred Income Tax Assets and Liabilities

The estimated tax effect of the significant components within the Company's deferred tax liability was as follows:

	2018	2017
Mineral properties	\$ (517,000)	\$ (445,000)
Non-capital losses carried forward	2,732,000	2,404,000
Capital losses	-	1,000
Capital assets	369,000	347,000
Share issue costs	45,000	35,000
Valuation allowance	(2,629,000)	(2,342,000)
Net deferred income tax liabilities	\$ -	\$ -

The Company's non-capital losses in the amount of approximately \$10,118,000 begin to expire in 2026.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEARS ENDED MAY 31, 2018 AND 2017 (Expressed in Canadian dollars)

15. INCOME TAXES (Continued)

c) Flow-through Resource Expenditures

During the year ended May 31, 2017 the Company raised \$280,000 in flow-through share financing. As of May 31, 2018 a balance of \$19,207 remained to be spent on exploration expenditures on the Company's Canadian exploration properties by January 31, 2019.

16. SUBSEQUENT EVENTS

- a) Subsequent to year-end 2,590,000 warrants and 925,000 options expired unexercised. A further 50,000 options were cancelled.
- b) Subsequent to year end the Company closed a private placement of 16,800,000 units for gross proceeds of \$840,000. Each unit is comprised of one common share and one share purchase warrant exercisable at \$0.05 for a period of 5 years from closing.
- c) Subsequent to year-end, the Ministry of Energy and Petroleum Resources amended the terms of the Company's reclamation deposits for the Silvana mine requiring an additional \$150,000 in deposits, bringing the total required reclamation deposits to \$250,000.