



KLONDIKE SILVER

Our Vision: Silver/Zinc/Lead Production

TSX-V: KS FSE: K1SN

Financial Statements

For the Year Ended May 31, 2023

(Expressed in Canadian Dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Independent Auditor's Report

To the Shareholders of Klondike Silver Corp.

Opinion

We have audited the financial statements of Klondike Silver Corp. (the "Company"), which comprise the statements of financial position as at May 31, 2023 and 2022, and the statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at May 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that the Company incurred a net and comprehensive loss of \$1,105,958 during the year ended May 31, 2023 and, as of that date, the Company's current liabilities exceeded its total assets by \$1,370,825. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters, that in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Except for the matter described in the Material Uncertainty Related to Going Concern section, we have determined that there are no other key audit matters to communicate in our report.

Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Heather McGhie.

A handwritten signature in black ink, appearing to read 'D MCL.' with a stylized 'D' and a period at the end.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, BC

September 28, 2023

KLONDIKE SILVER CORP.

STATEMENT OF FINANCIAL POSITION (Expressed in Canadian Dollars)

	May 31, 2023	May 31, 2022
ASSETS		
Current		
Cash	\$ 107	\$ 157,305
Receivables (Note 4)	262,532	30,804
Prepaid expenses	24,033	10,298
Total Current Assets	236,672	198,407
Prepaid Expenses – Long Term	1,500	31,500
Reclamation Bonds (Note 5)	270,500	270,500
Mill and Equipment (Note 6)	674,663	795,609
Exploration and Evaluation Assets (Note 7)	17,033,808	16,566,574
Total Assets	\$ 18,267,143	\$ 17,862,590
LIABILITIES		
Current		
Accounts payable (Note 10)	\$ 144,576	\$ 58,298
Accrued liabilities (Note 8)	863,908	817,027
Due to related parties (Note 10)	38,272	1,190
Loans and accrued interest (Notes 10 and 12)	334,048	-
CEBA loans – current portion (Note 13)	20,000	20,000
Mortgage payable (Note 14)	146,693	146,693
Administrative penalty (Note 16)	110,000	-
Total Current Liabilities	1,657,497	1,043,208
Convertible Debenture (Notes 10 and 11)	1,937,736	1,275,404
CEBA Loans (Note 13)	40,000	40,000
Restoration Provision (Note 9)	407,194	387,804
Total Liabilities	4,042,427	2,746,416
EQUITY		
Share Capital (Note 15)	40,714,984	40,644,984
Share Subscriptions Received (Note 21)	15,000	-
Reserves (Note 15)	5,009,643	5,009,643
Equity Portion of Convertible Debenture (Notes 10, 11 and 15)	424,561	295,061
Deficit	(31,939,472)	(30,833,514)
Total Equity	14,224,716	15,116,174
Total Liabilities and Equity	\$ 18,267,143	\$ 17,862,590

Nature of Operations and Going Concern (Note 1)

Contingent Liabilities (Note 17)

Subsequent Events (Note 21)

These financial statements were approved for issue by the Board of Directors on September 28, 2023.

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.

STATEMENT OF OPERATIONS AND COMPREHENSIVE LOSS (Expressed in Canadian Dollars)

	Year ended	
	May 31, 2023	May 31, 2022
Expenses		
Accretion (Notes 9, 11 and 12)	\$ 178,345	\$ 75,857
Amortization (Note 6)	2,855	2,172
Compensation and consulting (Note 10)	341,502	336,050
Interest and bank charges (Notes 10, 11, 12 and 14)	223,253	155,074
Investor relations and promotion	19,472	32,587
Office, rent and miscellaneous (Note 10)	114,188	105,782
Professional fees (Note 10)	33,916	72,437
Regulatory and stock transfer fees	30,982	34,009
Utilities and communication	51,445	69,711
	(995,958)	(883,678)
Other Expense		
Write off of exploration and evaluation assets (Note 7)	-	(1,000)
Administrative penalty (Note 16)	(110,000)	-
Net Loss and Comprehensive Loss for the Year	\$(1,105,958)	\$ (884,678)
Loss Per Share – Basic and diluted	\$ (0.00)	\$ (0.00)
Weighted Average Number of Shares Outstanding		
Basic and diluted	262,211,638	250,877,994

The accompanying notes are an integral part of these financial statements.

KLONDIKE SILVER CORP.

STATEMENT OF CHANGES IN EQUITY (Expressed in Canadian Dollars)

	SHARE CAPITAL			EQUITY PORTION OF CONVERTIBLE DEBENTURE			DEFICIT	TOTAL
	NUMBER	AMOUNT	SUBSCRIPTIONS	RESERVES				
Balance, May 31, 2021	245,164,035	\$ 39,743,554	\$ -	\$ 5,063,373	\$ 295,061	\$	(29,948,836)	\$ 15,153,152
Issue of shares for warrant exercise (Note 15)	15,200,000	788,000	-	-	-		-	788,000
Issue of shares for option exercise (Note 15)	995,000	113,430	-	(53,730)	-		-	59,700
Net and comprehensive loss for the year	-	-	-	-	-		(884,678)	(884,678)
Balance, May 31, 2022	261,359,035	\$ 40,644,984	\$ -	\$ 5,009,643	\$ 295,061	\$	(30,833,514)	\$ 15,116,174
Issue of shares for loan bonus (Notes 12 and 15)	1,600,000	70,000	-	-	-		-	70,000
Share subscriptions received (Note 15)	-	-	15,000	-	-		-	15,000
Equity portion of convertible debenture (Notes 10, 11 and 15)	-	-	-	-	129,500		-	129,500
Net and comprehensive loss for the year	-	-	-	-	-		(1,105,958)	(1,105,958)
Balance, May 31, 2023	262,959,035	\$ 40,714,984	\$ 15,000	\$ 5,009,643	\$ 424,561	\$	(31,939,472)	\$ 14,224,716

The accompanying notes are an integral part of these financial statements.

KLONDIKE SILVER CORP.

STATEMENT OF CASH FLOWS (Expressed in Canadian Dollars)

	Year Ended	
	May 31, 2023	May 31, 2022
Operating Activities		
Net loss for the year	\$ (1,105,958)	\$ (884,678)
Non-cash items:		
Accretion	178,345	75,857
Amortization	2,855	2,172
Accrued interest	199,425	136,782
Administrative penalty	110,000	-
Write off of exploration and evaluation assets	-	1,000
Changes in non-cash operating assets and liabilities:		
Receivables	25,127	20,123
Prepaid expenses	891	2,233
Accounts payable and accrued liabilities	201,491	162,204
Cash Used in Operating Activities	(790,806)	(484,307)
Investing Activities		
Equipment purchased	(8,743)	(449,230)
Exploration and evaluation assets, net of BCMETC	(262,605)	(1,611,289)
Prepaid exploration and evaluation costs	15,374	51,779
Cash Used in Investing Activities	(255,974)	(2,008,740)
Financing Activities		
Proceeds from share issuances, net of finders' fees	-	847,700
Share subscriptions received	15,000	-
Advances from related parties	37,082	-
Mortgage repayments	-	1,693
Convertible debenture proceeds	500,000	-
Loans proceeds	337,500	-
Cash Provided by Financing Activities	889,582	849,393
Decrease in Cash During the Year	(157,198)	(1,643,654)
Cash – Beginning of Year	157,305	1,800,959
Cash – End of Year	\$ 107	\$ 157,305
Supplementary Cash Flow Information:		
Cash Paid During the Period For:		
Interest - mortgage	\$ 14,596	\$ 14,498
Interest - loans	\$ 1,452	\$ -
Non-cash Financing and Investing Activities:		
Exploration and evaluation costs included in accounts payable and accruals	\$ 909,836	\$ 575,186
Amortization capitalized to exploration and evaluation assets	\$ 126,834	\$ 90,026

The accompanying notes are an integral part of these financial statements.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023

(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 and comprehensive loss of \$1,105,958 for the year ended May 31, 2023 (May 31, 2022 - \$884,678) and had a working capital deficiency at May 31, 2023 of \$1,370,825 (May 31, 2022 - \$844,801) and a deficit of \$31,939,472 (May 31, 2022 - \$30,833,514). 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 operation of the Company is 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. Such adjustments could be material.

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").

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (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 occurs and may affect 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:

i) Determination of cash generating units

In performing impairment assessments of corporate assets, assets that cannot be assessed individually are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Management is required to exercise judgment in identifying these cash generating units ("CGUs").

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (Continued)

d) Critical Accounting Judgments and Estimates (Continued)

ii) Recoverability of asset carrying values

Management is required to assess impairment in respect of exploration and evaluation assets. Note 7 discloses the carrying value of these assets. The triggering events for the impairment of exploration and evaluation assets are defined in *IFRS 6 Exploration for and Evaluation of Mineral Resources*.

Impairment of exploration and evaluation assets is assessed at the CGU level. The Company has used each of its mineral properties to establish its CGUs. 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.

The Company assesses its mill and equipment for possible impairment if there are events or changes in circumstances that indicate that carrying values of the assets may not be recoverable, or at least annually.

The assessment of any impairment of mill and equipment is dependent upon estimates of recoverable amounts that take into account factors such as economic and market conditions affecting prices, timing of cash flows, future development costs, and the useful lives of assets and their related salvage values.

iii) Decommissioning liabilities

Provisions for decommissioning liabilities associated with the Company's operations are based on current legal and constructive requirements, technology, price levels and expected plans for remediation. Amounts recorded for decommissioning liabilities require the use of management's best estimates of future decommissioning expenditures, expected timing of expenditures and future inflation rates. The estimates are based on internal and third-party information and actual costs and cash outflows can differ from estimates due to changes in laws and regulations, public expectations, prices, discovery and analysis of site conditions, and changes in clean up technology.

iv) Accrued liabilities

The Company has applied judgment in recognizing accrued liabilities, including judgment as to whether the Company has a present obligation (legal or constructive) as a result of a past event; whether it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and whether a reliable estimate can be made of the amount of the obligation.

v) Share based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation and other equity-based payments. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (Continued)

d) Critical Accounting Judgments and Estimates (Continued)

vi) Deferred income tax assets

The Company has applied judgment in the inputs used in assessing the recoverability of deferred income tax assets to the extent that the deductible temporary differences will reverse in the foreseeable future and that the Company will have future taxable income.

vii) Convertible debenture

The convertible debentures are separated into their liability and equity components on the statements of financial position. The liability component is initially recognized at fair value, calculated at the present value of the liability based upon non-convertible debt issued by comparable issuers and accounted for at amortized cost using the effective interest rate method. The effective interest rate used is the estimated rate for non-convertible debt with similar terms at the time of issue.

viii) Going concern

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenditures and meet its liabilities for the ensuing year involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

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

i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit or 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 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 or if the Company has opted to measure them at FVTPL.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following table shows the classification under IFRS 9:

Financial assets/liabilities	Classification IFRS 9
Cash	FVTPL
Reclamation bonds	FVTPL
Receivables	Amortized cost
Accounts payable	Amortized cost
Due to related parties	Amortized cost
Loans	Amortized cost
Mortgage payable	Amortized cost
Convertible debenture	Amortized cost
CEBA loan	Amortized cost

ii) Measurement

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 statements of operations. 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 statements of operations in the period in which they arise.

iii) 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 statements of operations, 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.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

iv) Derecognition of 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 statements of operations.

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.

v) Derecognition of financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gains and losses on derecognition are generally recognized in the statements of operations.

b) Cash and Cash Equivalents

Cash and cash equivalents consist 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 equivalents with institutions of high-credit worthiness. As at May 31, 2023 and 2022, the Company only held cash.

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 the mill and equipment is provided on the straight line method over their estimated useful lives ranging from three to twenty years.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 for and Evaluation of Mineral Resources* 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.

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.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Exploration and Evaluation Assets (Continued)

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 asset is written down accordingly.

Where it is not 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.

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.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of common shares issued as part of private placements units was determined to be the more easily measurable component and are valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, is allocated to attached warrants. Any fair value attributed to warrants is recorded to reserves.

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 YEAR ENDED MAY 31, 2023

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (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.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 they relate to a business combination or items recognized directly in equity or in other comprehensive income or loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current fiscal 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 fiscal year 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.

k) Convertible Debenture

The Company classifies convertible debentures into debt and equity components based on the residual method. The liability component is calculated at the present value of the principal and interest, discounted at the estimated interest rate applicable to the non-convertible debenture at the time the debenture was issued. This discount on the convertible debenture is accreted over its term to the full principle value using the effective interest rate method. The equity element of the convertible debenture comprises the value of the conversion option, being the difference between the face value of the convertible debt and the liability component. Upon recognition, the equity component is recorded to reserves.

l) Exploration Tax Credits

The Company recognizes mineral exploration tax credits against the exploration and evaluation assets when the amount to be received can be reasonably estimated and collection is reasonably assured.

4. RECEIVABLES

Receivables are summarized as follows:

	May 31, 2023	May 31, 2022
GST receivable	\$ 5,677	\$ 30,804
BCMETC (Note 7)	256,855	-
	<u>\$ 262,532</u>	<u>\$ 30,804</u>

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (Expressed in Canadian Dollars)

5. RECLAMATION BONDS

The reclamation bonds at May 31, 2023 of \$270,500 (May 31, 2022 - \$270,500) 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 director.

6. MILL AND EQUIPMENT

	Costs			
	Mill	Equipment	Land	Total
Balance May 31, 2021	\$ 314,800	\$ 1,594,706	\$ 62,773	\$ 1,972,279
Additions, net of disposals	-	(313,171)	-	(313,171)
Balance May 31, 2022	314,800	1,281,535	62,773	1,659,108
Additions, net of disposals	-	8,743	-	8,743
Balance May 31, 2023	\$ 314,800	\$ 1,290,278	\$ 62,773	\$ 1,667,851

	Accumulated Amortization			
	Mill	Equipment	Land	Total
Balance May 31, 2021	\$ 314,800	\$ 1,218,903	\$ -	\$ 1,533,703
Additions, net of disposals	-	(670,204)	-	(670,204)
Balance May 31, 2022	314,800	548,699	-	863,499
Additions, net of disposals **	-	129,689	-	129,689
Balance May 31, 2023	\$ 314,800	\$ 678,388	\$ -	\$ 993,188

	Net Carrying Amount			
	Mill	Equipment	Land	Total
Balance May 31, 2022	\$ -	\$ 732,836	\$ 62,773	\$ 795,609
Balance May 31, 2023	\$ -	\$ 611,890	\$ 62,773	\$ 674,663

The Company's Rosebery building and land, which had net book values as at May 31, 2023 of \$46,496 and \$62,773 (May 31, 2022 - \$56,829 and \$62,773) respectively, are encumbered by a first mortgage. (Note 14)

** Of the amortization total of \$129,689, the Company capitalized its mill and related equipment amortization of \$126,834 (2022 - \$90,026) to Exploration and Evaluation Assets (Note 7), with its office equipment amortization of \$2,855 (2022 - \$2,172) being expensed.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS

For the year ended May 31, 2022:

	Slocan and Sandon BC	Horwood ON	Total
Acquisition Costs			
Opening balance-acquisition	\$ 691,278	\$ 1,000	\$ 692,278
Current year acquisition costs	7,802	-	7,802
	<u>699,080</u>	<u>1,000</u>	<u>700,080</u>
Exploration Costs			
Opening balance-exploration	14,681,300	-	14,681,300
Amortization (Note 5)	90,026	-	90,026
Fuel	85,609	-	85,609
Geology and labour	786,070	-	786,070
Ground maintenance	600,987	-	600,987
Mapping and sampling	9,886	-	9,886
Site administration	24,105	-	24,105
Supplies and maintenance	288,891	-	288,891
	<u>16,566,874</u>	<u>-</u>	<u>16,566,874</u>
Write off	-	(1,000)	(1,000)
BCMETC recovery	<u>(699,380)</u>	<u>-</u>	<u>(699,380)</u>
Balance, May 31, 2022	<u>\$16,566,574</u>	<u>\$ -</u>	<u>\$16,566,574</u>

For the period ended May 31, 2023:

	Slocan and Sandon BC
Acquisition Costs	
Opening balance-acquisition	\$ 699,080
Current year acquisition costs	1,000
	<u>700,080</u>
Exploration Costs	
Opening balance-exploration	16,566,874
Amortization (Note 5)	126,834
Fuel	65,620
Geology and labour	606,092
Mapping and sampling	9,137
Site administration	20,877
Supplies and maintenance	175,335
	<u>17,570,769</u>
BCMETC recovery	<u>(1,237,041)</u>
Balance, May 31, 2023	<u>\$17,033,808</u>

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (Expressed in Canadian Dollars)

7. EXPLORATION AND EVALUATION ASSETS (Continued)

British Columbia Properties

The Slocan and Sardon Group covers an area of approximately 114 square kilometres. The claims include legacy claims, crown-granted claims and acquired or converted mineral claims. All mineral claims are contiguous. The majority of mineral claims are in good standing to July 31, 2030.

In December 2021 the Company optioned 4 mineral claims contiguous to existing claims. \$1,000 was paid on signing and five additional \$1,000 payments due annually from 2022 to 2026. There is a 2.5% net smelter royalty on these 4 mineral claims of which 1.5% can be purchased back at any time for \$500,000.

Yukon Property

The Company holds 9 mineral claims in the Watson Lake mining district of the Yukon Territory. Current claim expiry dates are: August 18, 2025 and February 4, 2030. The claims were written off in prior years as management's focus is on the British Columbia property group.

British Columbia Mining Exploration Tax Credit ("BCMETS")

During the year the Company received a refund relating to the BCMETS of \$280,806 (2022 - \$224,955) for exploration expenditures incurred during the year ended May 31, 2022 and accrued \$256,855 (2022 - \$Nil) (Note 4) for the estimated BCMETS for exploration expenditures incurred during the year ended May 31, 2023.

8. ACCRUED LIABILITIES

Accrued liabilities are summarized as follows:

	May 31, 2023	May 31, 2022
Professional fees	\$ 30,000	\$ 35,427
Geological services	34,168	-
Constructive obligation	799,740	781,600
	<u>\$ 863,908</u>	<u>\$ 817,027</u>

The constructive obligation is an estimate of the current work required at the property to clear Ministry orders. The largest of the estimates are the completion of the Carpenter Creek bank fortification and the redesign of the slopes on the tailings management facility ponds.

9. RESTORATION PROVISION

The Company has calculated the fair value of the restoration provision as at May 31, 2023 using a pre-tax discount rate of 5% (2022 - 5%). The estimated total future undiscounted cash flows to settle the restoration provision at May 2030 is \$573,000.

	May 31, 2023	May 31, 2022
Balance, beginning of period	\$ 387,804	\$ 369,338
Accretion	19,390	18,466
Balance, end of period	<u>\$ 407,194</u>	<u>\$ 387,804</u>

The components of this obligation are the end of use 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 July 31, 2029. The estimate of future asset retirement obligations is subject to change based on amendments to applicable laws, management's intentions and mineral claim renewals.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023

(Expressed in Canadian Dollars)

9. RESTORATION PROVISION (Continued)

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 party balances consist of the following*:

	May 31, 2023	May 31, 2022
Due to Directors and Officers*	\$ 17,152	\$ 1,000
Due to Companies controlled by Directors*	21,120	190
	<u>\$ 38,272</u>	<u>\$ 1,190</u>
Loans and accrued interest to a family member of Officer and Director (Note 12)	\$ 58,629	\$ -
Convertible Debenture due to a major shareholder**		
Convertible debenture cash value	\$ 2,122,264	\$ 1,443,056
Equity adjustment	(184,528)	(167,652)
Convertible debenture statement value	<u>\$ 1,937,736</u>	<u>\$ 1,275,404</u>
Accounts payable owing to Director and Officers	\$ 8,213	\$ -

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

** See Note 11.

The Company entered into the following transactions with related parties (Note 10).

- The Company was charged \$120,000 (May 31, 2022 - \$120,000) by an officer for services to the Company included in compensation and consulting expense.
- The Company was charged \$27,000 (May 31, 2022 - \$36,000) for rent in office space rented by an officer.
- The Company was charged \$1,070 in professional fees (May 31, 2022 - \$Nil) by a company controlled by a director.
- The Company accrued \$1,129 in interest on the loans and accrued interest (May 31, 2022 - \$Nil) to a company controlled by a major shareholder (Note 12).
- The Company accrued \$179,207 in interest on the convertible debenture (May 31, 2022 - \$136,782) to a company controlled by a major shareholder (Note 10).

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023

(Expressed in Canadian Dollars)

11. CONVERTIBLE DEBENTURE

The Company has a Convertible Debenture agreement with a major shareholder with the provision that the major shareholder may make multiple advances to the Company up to a total amount of \$2,500,000. The debenture bears interest at the rate of 10% per annum, compounded monthly and matures on December 31, 2024. The first advance in the amount of \$1,457,181 may be converted, in whole or in part, into units ("Units") of the Company at a conversion price of \$0.10 per Unit before maturity. Each Unit is comprised of one common share and one common share purchase warrant of the Company. Each warrant may be converted into one share of the Company at a price of \$0.05 per share for a period of 60 months from the issue date of the Convertible Debenture. Future advances under the Convertible Debenture agreement may be converted before maturity, in whole or in part, into Units at a conversion price equal to the then prevailing market price of the Company's common shares and the exercise price of future warrants will be equal to the then prevailing market price of the Company's common shares. The Convertible Debenture is secured by the Company's mill, equipment and under surface rights.

Changes in convertible debenture during the period:

	May 31, 2023	May 31, 2022
Beginning balance	\$ 1,275,404	\$ 1,081,231
Advance	500,000	-
Equity portion	(129,500)	-
Accretion	112,625	57,391
Interest accrual (Note 10)	179,207	136,782
Ending balance	<u>\$ 1,937,736</u>	<u>\$ 1,275,404</u>

12. LOANS AND ACCRUED INTEREST

As at May 31, 2023, the Company owed \$357,718 consisting of \$337,500 in loans and \$20,218 in accrued interest as follows:

- a) \$400,000 in loans was received which bear interest at 10% per annum with due dates of one year from receipt. As additional consideration for these loans, the Company issued 1,600,000 common shares of the Company as a bonus to the lenders at a deemed price of \$0.05 per share (Note 15). \$100,000 was repaid during the year, resulting in \$300,000 of these loans remain outstanding along with accrued interest of \$19,814.
- b) \$62,800 in loans was received which bear interest at 12% with no fixed due date. \$25,300 was repaid during the year resulting in \$37,500 of these loans remain outstanding along with accrued interest of \$404

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (Expressed in Canadian Dollars)

12. LOANS AND ACCRUED INTEREST (Continued)

Changes in Loans during the period:	May 31, 2023	May 31, 2022
Beginning balance	\$ -	\$ -
Loans received	462,800	-
Discount on loan for bonus shares	(70,000)	-
Loans paid	(125,300)	-
Accretion	46,300	-
Interest accrual	21,355	-
Interest paid	(1,452)	-
Ending balance	<u>\$ 334,048</u>	<u>\$ -</u>

Included in the amount owing is \$58,629, consisting of principle of \$57,500 and accrued interest of \$1,129 due to a family member of an officer and director of the Company, of which \$20,000 bears interest at 10% and \$37,500 bears interest at 12%.

13. CEBA LOANS

In 2020 the Company received \$40,000, through the Canadian Emergency Business Account Program ("CEBA Loan"), which provided financial relief for Canadian small businesses during the COVID-19 pandemic. The CEBA Loan has an initial term date of December 31, 2023 (the "Initial Term Date") and is due December 31, 2026. The CEBA Loan is non-revolving, with an interest rate being 0% per annum prior to the Initial Term Date and 5% per annum thereafter during any extended term, which is calculated daily and paid monthly. The CEBA Loan can be repaid at any time without penalty and, if \$30,000 is paid prior to the Initial Term Date, the remaining balance of the CEBA Loan will be forgiven. In 2021, the Company received a further \$20,000 as an extension under the Canadian Emergency Business Account Program; however, due to the requirements of the loan, it is considered to be due on demand.

14. MORTGAGE PAYABLE

The Company has a first mortgage on the Rosebery property located in Rosebery, British Columbia, Canada, in the amount of \$146,693 (2022 - \$146,693) (Note 6). Interest payments of \$1,216 calculated at 9.95% per annum are due monthly. The mortgage balance is due for renewal annually on December 1, 2023.

15. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023

(Expressed in Canadian Dollars)

15. SHARE CAPITAL (Continued)

b) Issued during the year ended May 31, 2023

In August 2022, the Company issued 800,000 common shares for fair value of \$36,000 as bonus shares on loans of \$200,000 (Note 12).

In January 2023, the Company issued 400,000 common shares for fair value of \$18,000 as bonus shares on loans of \$100,000 (Note 12).

In March 2023, the Company issued 400,000 common shares for fair value of \$16,000 as bonus shares on loans of \$100,000 (Note 12).

c) Issued during the year ended May 31, 2022

In July 2021, the Company issued 200,000 common shares at a price of \$0.06 for the exercise of options by a Director for total proceeds of \$12,000.

In October 2021, the Company issued 200,000 common shares at a price of \$0.06 for the exercise of options by a Director for total proceeds of \$12,000.

In November 2021, the Company issued 400,000 common shares at a price of \$0.06 for the exercise of options by a Director for total proceeds of \$24,000.

In January 2022, the Company issued 9,600,000 common shares at a price of \$0.05 and 5,600,000 common shares at a price of \$0.055 for the exercise of warrants for total proceeds of \$788,000 and 95,000 common shares at a price of \$0.06 for the exercise of options by a Director for total proceeds of \$5,700.

In May 2022, the Company issued 100,000 common shares at a price of \$0.06 for the exercise of options by a Director for total proceeds of \$6,000.

d) Warrants

In estimating the fair value of warrants issued using the Black-Scholes Option Pricing Model, the Company is required to make assumptions. The expected volatility assumption is based on the historical volatility of similar companies operating in the same industry as the Company. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the warrants' expected life. The Company uses historical data to estimate warrant exercise, and forfeiture within the valuation model. The Company has historically not paid dividends on its common stock.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023

(Expressed in Canadian Dollars)

15. SHARE CAPITAL (Continued)

A summary of the changes in warrants is as follows:

	NUMBER OF WARRANTS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
Balance, May 31, 2021	68,515,000	\$ 0.06
Exercised	(15,200,000)	0.05
Expired	(600,000)	0.05
Balance, May 31, 2022	52,715,000	0.06
Expired	(27,890,000)	0.08
Balance, May 31, 2023	24,825,000	\$ 0.05

As at May 31, 2023, the following share purchase warrants were outstanding:

TOTAL NUMBER OF WARRANTS	EXERCISE PRICES	EXPIRY DATES
4,965,000	\$ 0.05	September 6, 2023 *
2,975,000	\$ 0.05	December 10, 2023
1,885,000	\$ 0.05	April 25, 2024
14,000,000	\$ 0.05	December 31, 2024
1,000,000	\$ 0.05	April 15, 2025
24,825,000		

* These warrants expired unexercised on their expiry date.

As at May 31, 2023 the weighted average remaining contractual life of the share purchase warrants was 1.16 years (May 31, 2022 – 1.38 years) and the weighted average exercise price was \$0.05 (May 31, 2022 - \$0.06).

d) 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.

In estimating the fair value of options granted using the Black-Scholes Option Pricing Model, the Company is required to make assumptions. The expected volatility assumption is based on the historical volatility of similar companies operating in the same industry as the Company. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the stock options' expected life. The Company uses historical data to estimate option exercise, forfeiture and employee termination within the valuation model. The Company has historically not paid dividends on its common stock.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (Expressed in Canadian Dollars)

15. SHARE CAPITAL (Continued)

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

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding and exercisable at May 31, 2021	13,550,000	\$ 0.11
Options exercised	(995,000)	0.06
Outstanding and exercisable at May 31, 2022	12,555,000	0.11
Options expired	(5,005,000)	0.06
Options cancelled	(600,000)	0.15
Outstanding and exercisable at May 31, 2023	6,950,000	\$ 0.15

As at May 31, 2023 the following stock options were outstanding and exercisable:

NUMBER OF OPTIONS OUTSTANDING	EXERCISE PRICES	EXPIRY DATES
6,950,000	\$ 0.15	July 28, 2023 *

* These options expired unexercised on their expiry date.

As at May 31, 2023 the weighted average remaining contractual life of the stock options was 0.16 years (May 31, 2022 – 0.94 years) and the weighted average exercise price was \$0.15 (May 31, 2022 – \$0.11).

e) Equity Portion of Convertible Debenture

The Company recognized the equity portion of the convertible debenture based on the residual method after calculating the fair value of the debt. An amount of \$295,061 representing the estimated value of the right of conversion was included in equity as the equity component of the convertible debenture.

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.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023

(Expressed in Canadian Dollars)

16. ADMINISTRATIVE PENALTY

The Company has been assessed \$110,000 by the Ministry of Mines of British Columbia with respect to delays in communicating and complying with Ministry orders with respect to the Company's tailings pond facility. Management is in the process of working with its engineering contractor to address the outstanding issues. The penalty amount has been accrued and the Company has filed an appeal.

17. CONTINGENT LIABILITIES

The Company has been advised by the Ministry of Forests of British Columbia that certain administrative penalties could be imposed on the Company with respect to construction, maintenance and use for industrial purposes of the Idaho Peak Forest Service Road without authorization. Management is in the process of completing an opportunity to be heard reply. Management believes that penalties, if any, that may be laid by the Ministry to be undeterminable at this time.

18. 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, 2023 and 2022. The Company is not subject to externally imposed capital requirements.

19. 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.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (Expressed in Canadian Dollars)

19. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

As at May 31, 2023, 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	\$ 107	\$ -	\$ 107	\$ 107
Reclamation bonds	2	270,500	-	270,500	270,500
Receivables (a)	2	-	5,677	5,677	5,677
		\$ 270,607	\$ 5,677	\$ 276,284	\$ 276,284
Financial liabilities					
Accounts payable (a)		\$ -	\$ (144,576)	\$ (144,576)	\$ (144,576)
Due to related parties (a)	2	-	(38,272)	(38,272)	(38,272)
Mortgage payable (a)	2	-	(146,693)	(146,693)	(146,693)
Loans and accrued interest (b)	2	-	(334,048)	(334,048)	(357,718)
Convertible debenture (c)	2	-	(1,937,736)	(1,937,736)	(2,122,264)
CEBA loan	2	-	(60,000)	(60,000)	(60,000)
		\$ -	\$ (2,661,325)	\$ (2,661,325)	\$ (2,869,523)

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

(b) Face value of \$337,500 and accrued interest of \$20,218 less discount of \$23,670

(c) Face value of \$1,557,181 and accrued interest of \$565,083 less discount of \$184,528

The carrying values of the Company's financial liabilities were a reasonable approximation of fair value, other than where noted.

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.

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (Expressed in Canadian Dollars)

19. 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 year. 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. All of the liabilities presented as accounts payable and accrued liabilities are due within 90 days of May 31, 2023. Liquidity risk is assessed as high.

c) Credit Risk

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. The Company's primary exposure to credit risk is on cash which is held in a Canadian financial institution. The Company has minimal credit risk.

d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company is not exposed to significant interest rate risk as it has not variable interest-bearing instruments.

20. INCOME TAXES

a) Provision for Income Taxes

The Company's provision for income taxes for the years ended May 31, 2023 and 2022 differs from the amounts computed by applying the statutory income tax rates to the loss before income taxes as a result of the following:

	2023	2022
	27%	27%
Statutory Canadian corporate tax rate		
Expected current income tax recovery	\$ (299,000)	\$ (239,000)
Non-deductible permanent differences	49,000	20,000
True up of prior year difference	510,000	(95,000)
Change in tax assets not recognized	(260,000)	314,000
Deferred income tax recovery	\$ -	\$ -

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NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED MAY 31, 2023 (Expressed in Canadian Dollars)

20. INCOME TAXES (Continued)

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:

	2023	2022
Mineral properties	\$ (1,323,000)	\$ (787,000)
Convertible debenture	(50,000)	(45,000)
Asset retirement obligation	110,000	105,000
Non-capital losses carried forward	3,933,000	3,670,000
Capital assets	455,000	420,000
Share issue costs	31,000	53,000
Valuation allowance	(3,156,000)	(3,416,000)
Net deferred income tax liabilities	\$ -	\$ -

The Company's non-capital losses in the amount of approximately \$14,565,000 begin to expire in 2026.

21. SUBSEQUENT EVENTS

- On June 6, 2023 the Company announced that it is raising up to \$500,000 through a non-brokered private placement of up to 10,000,000 units at a price of \$0.05 per unit. Each unit will consist of one common share and one share purchase warrant, with each warrant exercisable for a period of three years from the closing at a price of \$0.05 per share. As of May 31, 2023 \$15,000 had been received.
- On June 27, 2023 the Company granted 19,400,000 incentive stock options to directors, officers, employees and consultants. The options are exercisable for a period of 36 months, at a price of \$0.05 per share.
- On August 21, 2023, the Company closed a tranche of a private placement for gross proceeds of \$150,000. 3,000,000 units were issued at a price of \$0.05 per unit. Each unit consists of one common share and one share purchase warrant, with each warrant exercisable for a period of three years at a price of \$0.05 per warrant.
- On September 12, 2023, the Company entered into a loan agreement with a family member of an officer and director of the Company for proceeds of \$150,000, bearing interest at 12% per annum, due on November 12, 2023 and secured by the Company's B.C. Mineral Exploration Tax Credit refund for May 31, 2023.