

KLONDIKE SILVER

OUR VISION: Silver/Lead/Zinc Production

Financial Statements

For the Quarter Ended November 30, 2019

(Expressed in Canadian Dollars)

NOTICE

No auditor review of these Condensed Interim Financial Statements

The accompanying unaudited condensed interim financial statements of Klondike Silver Corp. (“the Company”), for the six months ended November 30, 2019, have been prepared by management and have not been the subject of a review by the Company’s external independent auditors.

KLONDIKE SILVER CORP.

STATEMENTS OF FINANCIAL POSITION

(Expressed in Canadian dollars)

(Unaudited)

	November 30, 2019	May 31, 2019
ASSETS		
Current		
Cash and cash equivalents	\$ 1,460	\$ 34,769
Receivables	9,520	12,128
Prepaid expenses	30,504	20,220
Total Current Assets	41,484	58,390
Reclamation Bonds (Note 5)	195,500	195,500
Mill And Equipment (Note 6)	284,198	298,630
Exploration And Evaluation Assets (Note 7)	12,658,897	12,218,350
Total Assets	\$ 13,180,079	\$ 12,779,598
LIABILITIES		
Current		
Accounts payable	\$ 190,411	\$ 143,613
Accrued liabilities (Note 8)	114,991	129,991
Due to related parties (Note 10)	1,399,301	685,982
Mortgage payable (Note 11)	145,000	145,000
Total Current Liabilities	1,849,703	1,104,586
Restoration Provision (Note 9)	343,375	106,314
Total Liabilities	2,193,078	1,210,900
EQUITY		
Share Capital (Note 12)	34,375,335	34,375,335
Reserves	3,868,853	3,847,828
Deficit	(27,257,187)	(26,654,465)
Total Equity	10,987,001	11,568,698
Total Liabilities And Equity	\$ 13,180,079	\$ 12,779,598

Nature of Operations and Going Concern (Note 1)

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

KLONDIKE SILVER CORP.

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

	Six Months ended November 30		Six Months ended November 30	
	2019	2018	2019	2018
Expenses				
Accretion	\$ 4,188	\$ 1,265	\$ 8,376	\$ 2,530
Amortization	972	800	1,944	1,600
Compensation and consulting (Note 10)	77,019	71,581	152,545	146,685
Interest and bank charges	37,790	17,252	64,145	20,681
Investor relations and promotion	3,910	50,033	7,525	76,583
Office, rent, and miscellaneous (Note 10)	29,147	33,094	51,332	65,942
Professional fees (Note 10)	26,936	13,798	39,367	18,875
Regulatory and stock transfer fees	7,020	12,155	7,440	14,045
Share based compensation	21,025	-	21,025	-
Utilities and communication	9,746	12,245	20,338	23,121
Loss Before Other Income	(217,753)	(212,223)	(374,037)	(370,062)
Other (Expense)				
Change in restoration valuation	-	-	(228,685)	-
Net Loss And Comprehensive Loss	\$ (217,753)	\$ (212,223)	\$ (602,722)	\$ (370,062)
Loss Per Share – Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.00)
Weighted Average Number Of Shares				
Basic and diluted	156,916,893	149,631,893	156,916,893	140,726,975

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

KLONDIKE SILVER CORP.

STATEMENTS OF CHANGES IN EQUITY

(Expressed In Canadian dollars)

(Unaudited)

	SHARE CAPITAL NUMBER	AMOUNT	SHARE SUBSCRIPTIONS	RESERVES	DEFICIT	TOTAL
Balance, May 31, 2018	132,831,893	\$ 33,264,835	\$ -	\$ 3,832,578	\$ (26,003,776)	\$ 11,093,637
Issue of shares for cash, private placements						
Non flow-through shares	16,800,000	840,000	-	-	-	840,000
Share issue costs - cash	-	(71,000)	-	-	-	(71,000)
Share subscriptions	-	-	45,000	-	-	45,000
Comprehensive loss for the period	-	-	-	-	(370,062)	(370,062)
Balance, November 30, 2018	149,631,893	\$ 34,033,835	\$ 45,000	\$ 3,832,578	\$ (26,373,838)	\$ 11,537,574
Balance, May 31, 2019	156,916,893	\$ 34,375,335	\$ -	\$ 3,847,828	\$ (26,654,465)	\$ 11,568,698
Share based compensation	-	-	-	21,025	-	21,025
Comprehensive loss for the period	-	-	-	-	(602,722)	(602,722)
Balance, November 30, 2019	156,916,893	\$ 34,375,335	\$ -	\$ 3,868,853	\$ (27,257,186)	\$ 10,987,001

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

KLONDIKE SILVER CORP.

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

	Six Months Ended	
	November 30, 2019	November 30, 2018
Operating Activities		
Net loss for the period	\$ (602,722)	\$ (370,062)
Non-cash items:		
Accretion and amortization	10,320	4,132
Share based payments	21,025	-
Changes in non-cash operating assets and liabilities:		
Receivables	2,608	(6,872)
Prepaid expenses	(10,284)	1,420
Accounts payable and accrued liabilities	(9,494)	79,770
Due to related parties	713,319	308,544
Cash Used In Operating Activities	124,772	16,932
Investing Activities		
Equipment	-	(47,493)
Exploration and evaluation assets	(386,766)	(579,139)
Reclamation bonds	-	(75,000)
Restoration provision	228,685	-
Cash Used In Investing Activities	(158,081)	(701,632)
Financing Activities		
Proceeds from share issuances, net of finders fees	-	769,000
Share subscriptions	-	45,000
Cash Provided By Financing Activities	-	814,000
Decrease In Cash During Period	(33,309)	129,300
Cash and cash equivalents– Beginning Of Year	34,769	65,922
Cash and cash equivalents – End Of Period	\$ 1,460	\$ 195,222
Supplementary Cash Flow Information:		
Cash Paid During Period For:		
Interest	\$ 7,214	\$ 8,955
Non-cash Financing And Investing Activities:		
Exploration & evaluation costs included in accounts payable	\$ 65,949	\$ 48,365
Amortization capitalized to exploration and evaluation assets	\$ 12,488	\$ 13,213

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

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

1. NATURE OF OPERATIONS AND GOING CONCERN

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

The Company incurred a net loss of \$(602,722) for the period ended November 30, 2019 (November 30, 2018 - \$(370,062) and had a working capital (deficit) at November 30, 2019 of \$(1,808,219) (May 31, 2019 - \$(1,046,196) and a deficit of \$27,257,187 (May 31, 2019 - \$26,654,465). 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 unaudited condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee.

Approval of the financial statements

These unaudited condensed interim financial statements were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on January 24, 2020.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

2. BASIS OF PRESENTATION (Continued)

b) Basis of Measurement and Presentation

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

c) Foreign Currencies

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

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

d) Critical Accounting Judgments and Estimates

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

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

Critical Judgments

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

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

2. BASIS OF PRESENTATION (Continued)

d) Critical Accounting Judgments and Estimates (Continued)

Critical Judgments (Continued)

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

Estimates

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

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

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

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES

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

a) Financial Instruments and Risk Management

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

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

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. The Company completed a detailed assessment of its financial assets and liabilities as at June 1, 2018

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

Financial assets/liabilities	Original classification IAS 39	New classification IFRS 9
Cash	FTVPL	FTVPL
Reclamation bonds	FTVPL	FTVPL
Loans receivable	Amortized cost	Amortized cost
Accounts payable and accrued liabilities	Amortized cost	Amortized cost
Due to related parties	Amortized cost	Amortized cost
Mortgage Payable	Amortized cost	Amortized cost

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

a) Financial Instruments and Risk Management (Continued)

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.

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.

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) Cash and Cash Equivalents

Cash and cash equivalents consists of balances with banks, guaranteed investment certificates which are redeemable without penalty, and investments in financial instruments with maturities within three months held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. The Company places its cash and cash investments with institutions of high-credit worthiness. As at the financial statement dates, the Company had no cash equivalents.

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 PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

d) Exploration and Evaluation Assets (Continued)

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

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

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

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

e) Impairment of Non-financial Assets

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

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

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

f) Decommissioning Liabilities

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

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Decommissioning Liabilities (Continued)

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

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

g) Provisions

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

h) Share Capital

i) Non-monetary consideration

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

ii) Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into; i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

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

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

h) Share Capital (Continued)

iii) Share-based payments

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

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

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

iv) Share issuance costs

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

i) Loss Per Share

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

j) Income Taxes

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

KLONDIKE SILVER CORP.

NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

j) Income Taxes (Continued)

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

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

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

k) Recently adopted accounting pronouncements

New standard IFRS 9, Financial Instruments – Classification and Measurement

IFRS 9 is the first step in the process to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 introduces new requirements for classifying and measuring financial assets and liabilities and carries over from the requirements of IAS 39.

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:

New standard IFRS 16, Leases

IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties of a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model.

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 November 30, 2019 of \$195,500 (May 31, 2019 - \$195,500) 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 PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

5. RECLAMATION BONDS (CONTINUED)

In connection with the Company's M-65 permit update in fiscal 2019, the Company was required to increase its reclamation by \$150,000 (\$75,000 paid). The remaining \$75,000 is due upon the Company raising \$1,750,000 through equity financing.

6. MILL AND EQUIPMENT

	Costs			
	Mill	Equipment*	Land	Total
Balance May 31, 2018	\$ 314,800	\$ 1,337,868	\$ 62,773	\$ 1,715,441
Additions, net of disposals	-	49,899	-	49,899
Balance May 31, 2019	\$ 314,800	\$ 1,387,767	\$ 62,773	\$ 1,765,340
Additions, net of disposals	-	-	-	-
Balance November 30, 2019	\$ 314,800	\$ 1,387,767	\$ 62,773	\$ 1,765,340

	Accumulated Depreciation			
	Mill	Equipment	Land	Total
Balance May 31, 2018	\$ 314,800	\$ 1,121,488	\$ -	\$ 1,436,288
Additions, net of disposals **	-	30,422	-	30,422
Balance May 31, 2019	\$ 314,800	\$ 1,151,910	\$ -	\$ 1,466,710
Additions, net of disposals **	-	14,432	-	14,432
Balance November 30, 2019	\$ 314,800	\$ 1,166,342	\$ -	\$ 1,481,142

	Net Carrying Amount			
	Mill	Equipment	Land	Total
Balance May 31, 2018	\$ -	\$ 216,380	\$ 62,773	\$ 279,153
Balance May 31, 2019	\$ -	\$ 235,857	\$ 62,773	\$ 298,630
Balance November 30, 2019	\$ -	\$ 221,425	\$ 62,773	\$ 284,198

*The Company's Rosebery building and land, which had net book values as at August 31, 2019 of \$85,243 and \$62,773 respectively, are 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 PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

7. EXPLORATION AND EVALUATION ASSETS

For the period ended November 30, 2019:

	Slocan and Sandon BC	Horwood ON	Total
Acquisition Costs	\$ 691,278	\$ 1,000	\$ 692,278
Exploration Costs			
Opening balance-exploration	11,526,072	-	11,526,072
Amortization	12,488	-	12,488
Drifting and drilling	299,752	-	299,752
Fuel	34,985	-	34,985
Mapping and sampling	22,905	-	22,905
Site administration	34,067	-	34,067
Supplies and maintenance	36,350	-	36,350
	11,966,619	-	11,966,619
Balance, November 30, 2019	\$12,657,897	\$ 1,000	\$12,658,897

For the year ended May 31, 2019:

	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	26,821	-	26,821
Drifting and drilling	734,999	-	734,999
Fuel	86,447	-	86,447
Site administration	21,995	-	21,995
Supplies and maintenance	157,660	-	157,660
Survey	9,334	-	9,334
Utilities	15,000	-	15,000
	11,526,072	-	11,526,072
Balance, May 31, 2019	\$12,217,350	\$ 1,000	\$12,218,350

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.

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7. EXPLORATION AND EVALUATION ASSETS (Continued)

Ontario Properties

The Company holds 39 mineral claims in the Horwood township of the Porcupine mining division, Ontario. The claims are subject to a pre-existing 3% NSR.

8. ACCRUED LIABILITIES

Accrued liabilities are summarized as follows:

	November 30 2019	May 31 2019
Professional fees	\$ -	\$ 15,000
Constructive obligation (1)	\$ 114,991	\$ 114,991
	<u>\$ 114,991</u>	<u>\$ 189,776</u>

- (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 November 30, 2019 the remaining balance is \$114,991. 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 November 30, 2019 using a pre-tax discount rate of 5.00% (November 30, 2018 – 5.00%). The estimated total future undiscounted cash flows to settle the restoration provision at May 31, 2030 is \$573,000 (May 31, 2025 - \$142,500).

	November 30 2019	November 30 2018
Balance, beginning of the year	\$ 335,000	\$ 101,251
Accretion	8,375	2,532
Balance, end of period	<u>\$ 343,375</u>	<u>\$ 103,783</u>

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 July 18, 2026 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.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

10. RELATED PARTY BALANCES AND TRANSACTIONS

Due to Related parties balances consisted of the following*:

	November 30 2019	May 31 2019
Due to Directors and Officers*	\$ 38,449	\$ 810
Due to Company controlled by a Director*	3,671	2,932
Due to a major shareholder**	1,357,181	682,240
	<u>\$ 1,399,301</u>	<u>\$ 685,982</u>

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

** Unsecured, 10% interest, with no fixed terms of repayment. See subsequent event – Note 15.

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 \$60,000 (November 30, 2018 - \$60,000) by an officer for services to the Company.
- b) The Company was charged \$18,000 (November 30, 2018 - \$18,000) by an officer for rent.
- c) The Company was charged \$2,472 in professional fees (November 30, 2018 - \$8,252) by a company controlled by a director.
- d) The Company accrued \$55,111 in interest on promissory notes of \$1,270,000 (November 30, 2018 - \$Nil) to a company controlled by a major shareholder.

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 \$1,202.29 calculated at 9.95% per annum are due monthly. The mortgage balance is payable December 1, 2020.

12. SHARE CAPITAL

- a) Authorized: Unlimited common shares without par value.
- b) Issued during the period ended November 30, 2019: None
- c) Issued during the year ended May 31, 2019:

The Company closed a private placement for gross proceeds of \$1,204,250 as follows:

In April 2019, the Company closed a private placement tranche for total proceeds of \$152,500. The terms were: 3,050,000 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.

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

12. SHARE CAPITAL (continued)

In December 2018, the Company closed a private placement tranche for total proceeds of \$211,750. The terms were: 4,235,000 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 \$7,500 relating to this private placement tranche.

In September 2018, the Company closed a private placement tranche for total proceeds of \$840,000. The terms were: 16,800,000 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 \$71,000 relating to this private placement tranche.

d) Warrants

A summary of the changes in warrants follows:

	NUMBER OF WARRANTS OUTSTANDING	WEIGHTED AVERAGE EXERCISE PRICE
Balance, May 31, 2018	85,717,500	\$ 0.06
Issued	24,085,000	0.05
Expired	(2,590,000)	0.07
Balance, May 31, 2019	107,212,500	\$ 0.05
Expired	(19,077,500)	0.07
Balance, November 30, 2019	88,135,000	\$ 0.05

As at November 30, 2019, the following share purchase warrants were outstanding:

TOTAL NUMBER OF WARRANTS	EXERCISE PRICES	EXPIRY DATES
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
16,800,000	\$ 0.05	September 6, 2023
4,235,000	\$ 0.05	December 10, 2023
3,050,000	\$ 0.05	April 25, 2024
<u>88,135,000</u>		

As at November 30, 2019 the weighted average remaining contractual life of the share purchase warrants was 2.50 years (November 30, 2018 – 2.87 years) and the weighted average exercise price was \$0.05 (November 30, 2018 - \$0.05).

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

12. SHARE CAPITAL (Continued)

f) Stock Options

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

On November 29, 2019 the Company granted 725,000 incentive stock options to employees exercisable for a period of five years at a price of \$0.05. The fair value of these stock based compensation options granted was estimated on the date of grant in the amount of \$21,025 using the Black-Scholes valuation model with the following assumptions: i) exercise price per share of \$0.05; ii) expected share price volatility of 133%; iii) risk free interest rate of 1.49%; 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, 2018	11,895,000	\$ 0.06
Options cancelled/expired	(1,350,000)	0.10
Outstanding and exercisable at May 31, 2019	10,545,000	\$ 0.06
Options granted	725,000	0.05
Options cancelled/expired	(150,000)	0.07
Outstanding and exercisable at November 30, 2019	11,120,000	\$ 0.06

As at November 30, 2019 the following stock options were outstanding and exercisable:

NUMBER OF OPTIONS OUTSTANDING	EXERCISE PRICES	EXPIRY DATES
400,000	\$ 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
725,000	\$ 0.05	November 28, 2024
11,120,000		

As at November 30, 2019 the weighted average remaining contractual life of the stock options was 2.74 years (November 30, 2018 – 3.44 years) and the weighted average exercise price was \$0.06 (November 30, 2018 – \$0.06).

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

12. SHARE CAPITAL (Continued)

g) Nature and Purpose of Reserves

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

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

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 periods ended November 30, 2019 and 2018. The Company is not subject to externally imposed capital requirements.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

As at November 30, 2019, 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	\$ 1,460	\$ -	\$ 1,460	\$ 1,460
Reclamation bonds	2	195,500	-	195,500	195,500
Receivables (a)	2	-	9,520	9,520	9,520
		\$ 196,960	\$ 9,520	\$ 206,480	\$ 206,480
Financial liabilities					
Accounts payable and accrued liabilities (a)	2	\$ -	\$ (305,402)	\$ (305,402)	\$ (305,402)
Due to related parties (a)	2	-	(1,399,301)	(1,399,301)	(1,399,301)
Mortgage payable (a)	2	-	(145,000)	(145,000)	(145,000)
		\$ -	\$ (1,849,703)	\$ (1,849,703)	\$ (1,849,703)

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

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

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

a) Commodity Price Risk

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

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

b) Liquidity Risk

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

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

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NOTES TO FINANCIAL STATEMENTS FOR THE PERIODS ENDED NOVEMBER 30, 2019 AND 2018 (Expressed in Canadian dollars) (Unaudited)

15. SUBSEQUENT EVENT

Subsequent to the quarter end the Company closed of a convertible debenture financing. A lender has agreed to loan, in one or more advances, up to Cdn\$2,500,000 to the Company. The terms of the Convertible Debenture and transaction with the Lender were approved by the Company's disinterested shareholders at the Company's annual general and special meeting held on December 31, 2019 and accepted by the TSX Venture Exchange (the "Exchange") as required by applicable Exchange rules and policies.

The aggregate amount of outstanding principal and accrued interest of \$1,457,181 owing under the Promissory Notes that has been settled and restructured pursuant to the Convertible Debenture will be convertible, in whole or in part, into units ("Units") of the Company at a conversion price of Cdn\$0.05 per Unit during the first year of the Convertible Debenture and Cdn\$0.10 per Unit during all subsequent years of the Convertible Debenture and each Unit will be comprised of one common share and one common share purchase warrant (each a, "Warrant") of the Company, with each Warrant being exercisable into one common share of the Company at a price of \$0.05 per share for a period of sixty months from the issue date of the Convertible Debenture. However, (i) any future advances under the Convertible Debenture will be convertible, in whole or in part, into Units at a conversion price equal to the then prevailing market price of the Company's common shares as of the date on which the Company makes a request for such additional advance from the Lender; and (ii) the exercise price of the Warrants will be equal to the then prevailing market price of the Company's common shares as of the date on which the Company makes a request for such additional advance from the Lender.