# KHALKOS EXPLORATION INC.
# TSX-V: KAS

## Interim Financial Statements (unaudited)

## AUGUST 31, 2017

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The attached interim financial statements have been prepared by Khalkos Exploration Inc. and its external auditors have not reviewed these financial statements.


1000, St-Antoine West, Suite 410, Montreal QC H3C 3R7
Phone: 514-750-9026 Fax: 514-510-7964 www.khalkos.com

# KHALKOS EXPLORATION INC.

## Interim Financial Statement of Financial Position (unaudited)

(in Canadian dollars)

| | Notes | **May 31, 2017** | February 28, 2017 |
|---|---|---|---|
| | | **$** | $ |
| **ASSETS** | | | |
| Current | | | |
| Cash | | 618,735 | 822,311 |
| Listed shares | | 25,600 | 38,400 |
| Good and services tax receivable | | 23,775 | 14,673 |
| Tax credit receivable | | 16,363 | 16,363 |
| Prepaid expenses | | 9,463 | 12,932 |
| | | 693,936 | 904,679 |
| Non current | | | |
| Exploration and evaluation assets | 5 | 2,907,701 | 2,293,125 |
| **Total assets** | | 3,601,637 | 3,197,804 |
| | | | |
| **LIABILITIES** | | | |
| Current | | | |
| Trade and other payables | | 99,520 | 53,897 |
| Other liabilities | 6.1 | 100,064 | 108,785 |
| **Total liabilities** | | 199,584 | 162,682 |
| | | | |
| **EQUITY** | | | |
| Share capital | 6.1 | 8,136,009 | 7,662,134 |
| Contributed surplus | | 728,725 | 708,278 |
| Deficit | | (5,462,681) | (5,335,290) |
| **Total equity** | | 3,402,053 | 3,035,122 |
| **Total liabilities and equity** | | 3,601,637 | 3,197,804 |

Going concern assumptions (see Note 2).

The accompanying notes are an integral part of the interim financial statements.

These financial statements were approved and authorized for issue by the Board of Directors on July 25, 2017.

| | |
|---|---|
| *(signed) Robert Gagnon* | *(signed) Dominique Doucet* |
| Robert Gagnon, President | Dominique Doucet, Director |

# KHALKOS EXPLORATION INC.

## Interim Statement of Comprehensive Loss (unaudited)

(in Canadian dollars)

| | Notes | Three-month period ended May 31, 2017 | 2016 |
|---|---|---|---|
| | | **$** | $ |
| **EXPENSES** | | | |
| Professional fees | | 48,828 | 16,532 |
| Salaries and employee benefit expenses | 7.1 | 41,189 | 21,492 |
| Investors and shareholders' relations | | 13,541 | 4,852 |
| Trustees and registration fees | | 3,234 | 6,787 |
| Rent expenses | | 2,817 | 2,818 |
| Income taxes of section XII.6 | | 2,326 | 208 |
| Office expenses | | 1,929 | 546 |
| Insurance | | 1,511 | 1,552 |
| Bank charges | | 60 | 4 |
| Project generation expenses | | 3,018 | 3,267 |
| **OPERATIONAL LOS** | | 118,453 | 58,058 |
| **OTHER REVENUES AND EXPENSES** | | | |
| Finance income | 9 | - | 79,307 |
| Finance costs | 9 | (12,800) | (106,755) |
| | | (12,800) | (27,448) |
| **LOSS BEFORE INCOME TAX** | | (131,253) | (85,506) |
| Deferred income taxes | | 8,721 | (50) |
| **NET LOSS AND COMPREHENSIVE LOSS** | | (122,532) | (85,556) |
| **NET LOSS PER SHARE - basic and diluted** | 10 | (0.002) | (0.002) |

The accompanying notes are an integral part of the interim financial statements.

# KHALKOS EXPLORATION INC.

## Interim Statement of Changes in Equity (unaudited)

(in Canadian dollars)

| | Notes | Share capital | Contributed surplus | Deficit | Total Equity |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **As of March 1st, 2016** | | 5,143,219 | 598,038 | (4,772,445) | 968,812 |
| Net loss and comprehensive loss | | - | - | (85,556) | (85,556) |
| Share-based remuneration | 7.2 | - | 433 | - | 433 |
| Issuance costs of shares | | - | - | (4,646) | (4,646) |
| Shares issued for debt settlement | 6.1 | 339,838 | - | - | 339,838 |
| Exercise of warrants | 6.1 | 9,531 | (2,006) | - | 7,525 |
| Shares issued for the acquisition of exploration and evaluation assets | 6.1 | 250,000 | - | - | 250,000 |
| **As of May 31, 2016** | | 5,742,588 | 596,465 | (4,862,647) | 1,476,406 |
| | | | | | |
| **As of March 1st, 2017** | | 7,662,134 | 708,278 | (5,335,290) | 3,035,122 |
| Net loss and comprehensive loss | | - | - | (122,532) | (122,532) |
| Share-based remuneration | 7.2 | - | 20,447 | - | 20,447 |
| Issuance costs of shares | | - | - | (4,858) | (4,858) |
| Shares issued for the acquisition of exploration and evaluation assets | 6.1 | 473,875 | - | - | 473,875 |
| **As of May 31, 2017** | | 8,136,009 | 728,725 | (5,462,681) | 3,402,053 |

The accompanying notes are an integral part of the interim financial statements.

# KHALKOS EXPLORATION INC.
## Interim Table of Cash Flows (unaudited)
(in Canadian dollars)

| | Three-month period ended May 31, 2017 | 2016 |
|---|---|---|
| | $ | $ |
| **OPERATIONAL ACTIVITIES** | | |
| Net loss | (122,532) | (85,556) |
| Adjustments | | |
| Share-based remuneration | 20,447 | 433 |
| Change in fair value of listed shares | 12,800 | (79,307) |
| Loss on debt settlement | - | 106,199 |
| Deferred income tax | (8,721) | 50 |
| Changes in working capital items | | |
| Good and services tax receivable | (9,102) | 16,550 |
| Prepaid expenses | 3,468 | 3,564 |
| Trade accounts | 20,822 | (11,773) |
| Cash flows for operational activities | (82,818) | (49,840) |
| **INVESTING ACTIVITIES** | | |
| Tax credits received | - | 1,786 |
| Disposal of listed shares | - | 27,507 |
| Additions to exploration and evaluation assets | (115,900) | (10,678) |
| Cash flows from investing activities | (115,900) | 18,615 |
| **FINANCING ACTIVITIES** | | |
| Exercise of warrants | - | 7,525 |
| Issuance costs of shares | (4,858) | (4,646) |
| Cash flows from financing activities | (4,858) | 2,879 |
| **NET CHANGE IN CASH** | (203,576) | (28,346) |
| **CASH, BEGINNING OF THE PERIOD** | 822,311 | 82,905 |
| **CASH, END OF THE PERIOD** | 618,735 | 54,559 |
| **Additional information** | | |
| Interests paid on operational activities | - | 556 |

The accompanying notes are an integral part of the interim financial statements.

### 1. NATURE OF OPERATIONS

Khalkos Exploration Inc. ("Khalkos" or "the Company") is an exploration company and its activities are located in Canada.

The Company is incorporated under the Canada Business Corporations Act. The address of the Company's registrated office and its principal place of business is 1000, St-Antoine West, Suite 410, Montreal, Quebec, Canada. The Company's shares are listed on the TSX Venture Exchange, under the symbol "KAS".

### 2. GOING CONCERN ASSUMPTIONS

The interim financial statements have been prepared on the basis of the going oncern assumption, meaning the Company will be able to realize its assets and discharge its liabilities in the normal course of operations.

Given that the Company has not yet determined whether its mineral properties contain mineral deposits that are economically recoverable, the Company has not generated income nor cash flows from its operations. As of May 31, 2017, the Company has a deficit of $5,462,681 ($5,335,290 on February 28, 2017). These uncertainties cast significant doubt regarding the Company's ability to continue as a going concern.

The Company's ability to continue as a going concern is dependent upon its ability to raise additional financing to further explore its mineral properties and continued support of suppliers and creditors. Even if the Company has been successful in the past in doing so, there is no assurance that it will manage to obtain additional financing in the future.

The carrying amount of assets, liabilities, revenues and expenses presented in the financial statements and the classification used in the statement of financial position have not been adjusted as would be required of the going concern assumption was not appropriate. These adjustements could be significant. Management does not consider these adjustments. Management does not consider these adjustments because it believes in the assumption of the going concern.

### 3. BASIS OF PRESENTATION

The interim financial statements, on May 31, 2017, of the Company were prepared in accordance with IFRS, as issued by the International Accounting Standards Board (IASB) under the International Accounting Standards (IAS) 34-Interim Financial Reporting. These interim financial statements were prepared using the same basis of presentation, accounting policies and methods of computations outlined in Note 4, SUMMARY OF ACCOUNTING POLICIES, as described in the annual financial statements on February 28, 2017, as well as the IFRS effects as of July 25, 2017, the date the Board of Directors approved these interim financial statements. These interim financial statements do not include all of the notes required in the annual financial statements.

### 4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS

When preparing the interim financial statements, management undertakes a number of judgments, estimations and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results are likely to differ from the judgments, estimations and assumptions made by management, and will seldom equal the estimated results. Information about the significant judgments, estimations and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses are discussed below.

### 4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd)

**Significant management judgment**

The following are significant management judgments in applying the accounting policies of the Company that have the most significant effect on the financial statements.

**Recognition of deferred income tax assets and measurement of income tax expense**

Management continually evaluates the likelihood that its deferred tax assets could be realized. This requires management to assess whether it is probable that sufficient taxable income will exist in the future to utilize these losses within the carry-forward period. By its nature, this assessment requires significant judgment. To date, management has not recognized any deferred tax assets in excess of existing taxable temporary differences expected to reverse within the carry-forward period.

**Going concern**

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

**Estimation uncertainty**

Information about estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses are provided below. Actual results results may be substantially different.

**Impairment of exploration and evaluation assets**

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and assumptions in many cases.

When an indication of impairment loss or a reversal of an impairment loss exists, the recoverable amount of the individual asset or the cash-generating units must be estimated. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of the cash-generating unit to which the asset belongs must be determined.

In assessing impairment, the Company must make some estimates and assumptions regarding future circumstances, in particular whether an economically viable extraction operation can be established, the probability that the expenses will be recover from either exploitation or sale when the activities have not reached a stage that permits a resonable assessment of the existence of reserves, the Company's capacity to obtain financial resources necessary to complete the evaluation and development and to renew permits. Estimates and assumptions may change if new information becomes available. If, after expenditures is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in profit or loss in the period when the new information becomes available.

For the three-month period ended May 31, 2017, no impairment loss of exploration and evaluation assets was recognized in profit or loss ($0 on May 31, 2016). No reversal of impairment losses has been recognized for the reporting periods.

No impairment was conducted on properties. The Company has sufficient funds to respect its short-term obligation. Additionally, claims will not expire in the near future or are expected to be renewed, work was performed during the last three years and/or promising results were obtained on these properties.

(in Canadian dollars)

### 4. JUDGMENTS, ESTIMATES AND ASSUMPTIONS (cont'd)

**Share-based remuneration**

The estimation of share-based remuneration costs requires the selection of an appropriate valuation model and consideration as to the inputs necessary for the valuation model chosen. The Company has made estimates as to the volatility of its own share, the probable life of share options and warrants granted and the time of exercise of those share options and warrants. The model used by the Company is the Black-Scholes valuation model.

**Tax credits**

The calculation of the Company's refundable tax credit on qualified exploration expenditures incurred and refundable tax credit involves a degree of estimation and judgment in respect of certain items whose tax treatment cannot be finally determined until a notice of assessment has been issued by the relevant taxation authority and payment has been recieved. Differences arising between the actual results following final resolution of some of these items and the assumptions made could necessitate adjustments to the refundable tax credit and refundable tax credit, exploration and evaluation assets, and income tax expense in future periods.

### 5. EXPLORATION AND EVALUATION ASSETS

*Mining rights*

| | February 28, 2017 | Additions/ acquisitions | May 31, 2017 |
|---|---|---|---|
| | $ | $ | $ |
| (a) Malartic | | | |
| (i) part JAG | 720,335 | 165,000 | 885,335 |
| (ii) part Révillard | 261,761 | 20,000 | 281,761 |
| (iii) part Lakeshore | 21,208 | 203,488 | 224,696 |
| (iv) part Deane | - | 35,375 | 35,375 |
| (v) part Cadillac | - | 20,756 | 20,756 |
| (vi) part JR | - | 15,500 | 15,500 |
| | 1,003,304 | 460,119 | 1,463,423 |
| (b) Forsan | 42,250 | 74,013 | 116,263 |
| (c) Belleterre | 64,398 | - | 64,398 |
| (d) Villebon | 384,134 | - | 384,134 |
| | 1,494,086 | 534,132 | 2,028,218 |

# KHALKOS EXPLORATION INC.

## Notes to Interim Financial Statements

## For the three-month period ended May 31, 2017 (unaudited)

(in Canadian dollars)

### 5. EXPLORATION AND EVALUATION ASSETS (cont'd)

*Exploration and evaluation expenses*

| | February 28, 2017 | Additions | May 31, 2017 |
|---|---|---|---|
| | $ | $ | $ |
| (a) Malartic | | | |
| (i) part JAG | 348,093 | - | 348,093 |
| (ii) part Révillard | 149,981 | 72,183 | 222,164 |
| | 498,074 | 72,183 | 570,257 |
| (g) Forsan | - | 8,261 | 8,261 |
| (h) Belleterre | 10,156 | - | 10,156 |
| (i) Villebon | 290,809 | - | 290,809 |
| | 799,039 | 80,444 | 879,483 |
| **TOTAL** | 2,293,125 | 614,576 | 2,907,701 |

**(a) Malartic**

**(i) part JAG**

The Malartic, part JAG property, owned at 100% by the Company since December 22, 2016, is composed of 24 claims covering 767 hectares in the Malartic mining camp, 30 km northwest of the city of Val-d'Or. The property, which is straddled over 3 km by a gold-bearing shear zone, hosts of the Malrobic gold deposit. In May 2017, the Company boughback a NSR of 1% by issuing 1,000,000 shares, with a value of $155,000, and a payment of $10,000 in cash. The property is subject to a NSR of 1.5%.

**(ii) part Révillard**

The property consists of 30 claims, including 2 claims owned at 100% by Khalkos and not part of an option agreement. It is covering more than 10 km of a favorable gold bearing structure within the Malartic mining camp, situated 30 km north-west of the city of Val-d'Or. The property is subject to a net smelter return (NSR) of 2%.

The option agreement allows the Company to acquire 100% of the property in consideration for the issuance of 2,000,000 shares, with a value of $250,000 (issued on May 25, 2016), a total of $1M in exploration work and a payment of $50,000 ($30,000 payed on May 31, 2017), the whole spead over 3 years.

**(iii) part Lakeshore**

The Malartic, part Lakeshore property is adjacent to the Malartic, part JAG property. Is is composed of 28 claims covering an area of 10 km$^2$ in the Malartic township. The property is located at less than 5 km east of Lapa mine (Agnico Eagle) and at 6 km north of Malartic Canadian mine (Agnico Eagle-Yamana). The property is located in the Norbanite-Marbenite shear zone that is host to the Kiena mine and the former mines Norlatic and Marban (Niogold). In May 2017, the Company boughback the NSR of 3% by issuing 1,500,000 shares, with a value of $188,487, and a payment of $10,000 in cash. The property is no longer subject to any royalties.

**(iv) part Deane**

In May 2017, the Company acquires the property by issuing 175,000 shares, with a value of $25,375, and a payment of $10,000 in cash. The seller will retain a 2% GMR ("Gross Metal Royalty").

The property is composed of 3 claims covering an area of 143 hectares in the Cadillac township.

(in Canadian dollars)

**5. EXPLORATION AND EVALUATION ASSETS (cont'd)**

**(v) part Cadillac**

In May 2017, the Company acquires the property by issuing 100,000 shares, with a value of $15,000, and payment of $5,000 in cash. The seller will retain a 1% NSR, half of which may be redeemed for a consideration of $500,000.

The property is composed of 2 claims covering an area of 84 hectares.

**(vi) part JR**

In May 2017, the Company acquires the property by issuing 100,000 shares, with a value of $15,000. The seller will retain a 1% NSR, half of which may be redeemed for a consideration of $500,000.

The property is composed of 4 claims covering an area of 166 hectares in the Malartic township.

**(b) Forsan**

The property is located at less than 10 km from the Villebon property. It is composed of 27 claims covering an area of 8 $km^2$. In May 2017, the Company boughback a 1% NSR by issuing 250,000, with a value of $74,013. The property is subject to a 2% NSR.

**(c) Belleterre**

The Belleterre project is formed by the Blondeau-Guillet property, composed of 68 claims held in equal parts by Khalkos and Osisko Mining, as well as 6 other claims, known as the Chevrier property, held at 100% by Khalkos. It is located at 120 km south of the city Rouyn-Noranda and at 3 km north-west of Belleterre, Temiscamingue. It is located at 5 km west of the former Belleterre mine and at 2 km south-west of the former Aubelle mine.

**(d) Villebon**

The Villebon property, located in the Villebon Township, is situated at 47 km south-east of the city of Val-d'Or, in Abitibi, Quebec. The property consists of 43 claims covering 1,780 hectares and contains gold-bearing quartz veins of several metres in thickness. Khalkos wholly acquired the property, in 2015, by issuing 1,800,000 shares, for a market value of $90,000 and a cash payment of $20,000 to the seller for the first block and by transferring its option for the acquisition of the Poissons Blancs property for the second block (exchanged on February 28, 2015).The seller retains a Net Smelter Return of 1%, half of which can be redeemed for $500,000.

**6. EQUITY**

**6.1 Share capital**

The share capital of the Company consists of an unlimited of common shares without par value, voting, participating, dividend as declared by the Board of Directors.

| | Number of shares Three-month period ended May 31, | |
|---|---|---|
| | 2017 | 2016 |
| Shares issued at the beginning of the period | 56,425,731 | 39,778,701 |
| Acquisition of mining rights (a) (b) (c) (d) (e) (f) (g) | 3,125,000 | 2,000,000 |
| Debt settlement (h) | - | 2,123,985 |
| Exercise of warrants (i) (j) | - | 50,166 |
| Shares issued at the end of the period | 59,550,731 | 43,952,852 |

(in Canadian dollars)

**6.1 Share capital (cont'd)**

(a) On May 25, 2016, the Company issued 2,000,000 common shares at $0,125 per share, to wholly acquire the Malartic, part Révillard property.

(b) On April 20, 2017, the Company issued 1,500,000 common shares, with a value of $188,487, to boughback a 3% NSR on the Malartic, part Lakeshore property.

(c) On April 20, 2017, the Company issued 250,000 common shares, with a value of $74,013, to boughback a 1% NSR on the Forsan property.

(d) On May 9, 2017, the Company issued 175,000 common shares, with a value of $25,375, to acquire the Malartic, part Deane property.

(e) On May 9, 2017, the Company issued 100,000 common shares, with a value of $15,500, to acquire the Malartic, part Cadillac property.

(f) On May 9, 2017, the Company issued 100,000 common shares, with a value of $15,500, to acquire the Malartic, part JR property.

(g) On May 9, 2017, the Company issued 1,000,000 common shares, with a value of $155,000, to boughback a 1% NSR on the Malartic, part JAG property.

(h) On May 3, 2016, the Company issued 2,123,985 common shares at $0.16 per share, to five suppliers for the settlement of debt of a total of $233,639. The difference between the share price at issuance ($0.16) and the share price established in the agreement on debt settlement ($0.11) resulted in a loss on settlement of debt in the amount of $106,199, recognized in profit or loss.

(i) On May 4, 2016, 12,500 warrants were exercised at a price of $0.15 per share. An amount of $1,875 was received for the exercise of those warrants.

(j) On May 9, 2016, 37,666 warrants were exercised at a price of $0.15 per share. An amount of $5,650 was received for the exercise of those warrants.

**6.2 Warrants**

Outstanding warrants entitle their holders to subscribe to an equivalent number of common shares, as follows:

| | May 31, 2017 | |
|---|---|---|
| | Number of warrants | Weighted average exercise price |
| | | $ |
| Balance, at the beginning and the end of the period | 2,777,516 | 0.17 |

(in Canadian dollars)

### 6.2 Warrants (cont'd)

The number of outstanding warrants which coulb be exercised for an equivalent number of common shares is as follows:

| | May 31, 2017 | |
|---|---|---|
| Expiration date | Number of warrants | Exercise price |
| | | $ |
| December 22, 2017 | 2,010,016 | 0.16 |
| May 28, 2018 | 767,500 | 0.20 |
| | 2,777,516 | 0.17 |

## 7. EMPLOYEE REMUNERATION

### 7.1 Salaries and employee benefit expenses

Salaries and employee benefit expenses recognized are analyzed below:

| | Three-month period ended May 31, | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Salaries and benefits | 22,964 | 21,059 |
| Share-based remuneration | 20,447 | 433 |
| | 43,411 | 21,492 |
| less: share-based remuneration recognized in Project generation expenses | (2,222) | - |
| Salaries and employee benefit expenses | 41,189 | 21,492 |

### 7.2 Share-based remuneration

The Company has a option granting plan through the issuance of shares for eligible directors, officers, employees, consultants and service suppliers of investors' relations. The most important terms of the plan are as follows:

i) the maximum number of shares that may be issued under the plan is limited to 10% of the issued shares at the time of the grant of the options, maximum 5,955,073 on May 31, 2017 (maximum of 4,195,285 on May 31, 2016);

ii) the maximum number of shares that can be reserved for a beneficiary, during any 12 months, is limited to 5% of issued and outstanding shares;

iii) the maximum number of shares that can be reserved for a consultant during any 12 months period is limited to 2% of issued and outstanding shares;

iv) the maximum number of shares that can be reserved for a supplier of investor's relation services during any 12 months period is limited to 2% of issued and outstanding shares; moreover, the options granted may be exercised in steps over a period of 12 months after the grant, at the rate of 25% per quarter;

v) the options granted to directors, officers, employees or consultants may be exercised in steps over a period of 18 months at the rate of 15% per quarter and 10% at the day of the grant.

(in Canadian dollars)

### 7.2 Share-based remuneration (cont'd)

The options' term cannot exceed five years. The options exercise price is established by the Board of Directors and may not be lower than the market price of the common shares at the time of grant.

All share-based remuneration will be settled in equity. The Company has no legal or constructive obligation to repurchase or settle the options in cash.

The Company's share options are as follows for the period presented:

| | May 31, 2017 | |
|---|---|---|
| | Number of options | Weighted average exercise price |
| | | $ |
| Outstanding, at the beginning of the period | 3,700,000 | 0.13 |
| Expired | (200,000) | (0.10) |
| Outstanding, at the end of the period | 3,500,000 | 0.12 |
| Exercisable, at the end of the period | 2,982,500 | 0.11 |

The table below summarizes the information related to outstanding share options:

| | May 31, 2017 | |
|---|---|---|
| Range of exercise price | Number of options | Remaining life (years) |
| From $0 to $0.15 | 2,350,000 | 1.62 |
| From $0.16 to $0.30 | 1,150,000 | 4.23 |
| | 3,500,000 | |

In total, $20,447 of share-based remuneration (all of which related to equity-settled share-based remuneration transactions) were recorded in profit or loss, $18,225 as salaries and employee benefit expenses and $2,222 as project generation expenses for the three-month period ended May 31, 2017 ($433 in profit or loss as salaries and employee benefit expenses for the three-month period ended May 31, 2016) and credited to contributed surplus.

## 8. FAIR VALUE MEASUREMENT

### 8.1 Fair value measurement of financial instrument

Financial assets and liabilities measured at fair value in the statement of financial position are grouped into three levels of fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: unobservable inputs for the assets or liabilities.

The fair value of the listed shares have been estimated by reference of their quoted prices at the reporting date.

Shares, in listed companies measured at fair value in the statement of financial position on May 31, 2017 and February

(in Canadian dollars)

28, 2017, are classified in Level 1.

### 9. FINANCE COSTS AND INCOME

Finance costs can be analyzed as follows for the reporting periods presented:

| | Three-month period ended May 31, | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Change in fair value of listed shares | (12,800) | - |
| Interests on accouts payable | - | (556) |
| Loss on debt settlement | - | (106,199) |
| | (12,800) | (106,755) |

Finance income can be analyzed as follows for the reporting periods presented:

| | Three-month period ended May 31, | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Change in fair value of listed shares | - | 79,307 |
| | - | 79,307 |

### 10. LOSS PER SHARE

In calculating the diluted loss per share, dilutive potential common shares such as share options and warrants have not been included as they would have the effect of decreasing the loss per share. Decreasing the loss per share would be antidilutive. Details of share options and warrants issued that could potentially dilute earnings per share in the future aregiven in Notes 6.2 and 7.2.

Both the basic and diluted loss per share have been calculated using the net loss as a numerator, i.e .no adjustment to the net loss was necessary in 2017 and 2016.

| | Three-month period ended May 31, | |
|---|---|---|
| | 2017 | 2016 |
| Net loss | (122,532) $ | (85,556) $ |
| Weighted average number of shares | 57,568,394 | 40,613,613 |
| Basic and diluted loss per share | (0.002) $ | (0.002) $ |

### 11. RELATED PARTY TRANSACTIONS

The Company's related parties includes associated companies and its key management personnel, as described below. Unless otherwise stated, none of the transactions incorporated special terms and conditions and guarantees were given or received. Outstanding balances are usually settled in cash.

(in Canadian dollars)

**11.1 Transactions with key management personnel**

The Company's key management personnel includes officers, the chief financial officer and the president. The remuneration includes the following expenses:

| | Three-month period ended May 31, | |
|---|---|---|
| | 2017 | 2016 |
| | $ | $ |
| Short-term employee benefits | | |
| Salaries and employee benefit expenses | 8,983 | 7,338 |
| Share-based remuneration | 13,335 | 433 |
| Total remuneration | 22,318 | 7,771 |

On May 31, 2017, trade accounts include an amount of $12,950 ($13,700 on May 31, 2016) towards members of the Board of Directors.

**11.2 Transactions with related companies**

On May 31, 2017, Sirios Resources Inc. ("Sirios"), a mining company, holds 8,656,758 shares of the Company, corresponding to 14.54% of the share capital of the Company.

During the three-month period ended May 31, 2016, the Company issued 445,052 shares to Sirios and 892,000 shares to ExploLab Inc. ("Explolab"), a company whose main shareholder is a director of the Company, at a price of $0.11 per share, to settle a debt of $48,956 and $98,120 respectively. The difference between the share price at issuance ($0.16) and the share price established in the agreement on debt settlement ($0.11), resulted in a loss on settlement of a debt in amount of $22,253 and $44,600 respectively.

During the three-month period ended May 31, 2017, ExploLab carried out work on behalf of Khalkos on exploration fieldwork for a total of $70,400 ($0 on May 31, 2016). These transactions are in the normal course of business and were measured at the exchange amount, which is the consideration established and agreed to by the parties.

On May 31, 2016, trade accounts include an amount of $25,423 with Sirios ($23,863 on May 31, 2016) and an amount of $28,514 with ExploLab ($0 on May 31, 2016).

**12. CAPITAL MANAGEMENT POLICIES AND PROCEDURES**

The Company's capital management objectives are:

- To ensure the Company's ability to continue as a going concern;
- To increase the value of the assets of the business; and
- To provide an adequate return to shareholders.

These objectives will be achieved by identifying the right exploration projects, adding value to these projects and ultimately taking them through to production or sale and cash flows, either with partners or by the Company's own means.

The Company monitors capital on the basis of the carrying amount of equity.

The Company is not exposed to any externally imposed capital requirements except when the Company issues flow-through shares for which an amount should be used for exploration work. See all details in Note 6.1 and 13.

**12. CAPITAL MANAGEMENT POLICIES AND PROCEDURES (cont'd)**

The Company finances its exploration and evaluation activities principally by raising additional capital either through private placements or public offerings. When financing conditions are not optimal, the Company may enter into option agreements or other solutions to continue its activities or may slow its activities until conditions improve.

**13. CONTINGENCIES AND COMMITMENTS**

The Company is partially financed through the issuance of flow-through shares and, according to tax rules regarding this type of financing, the Company is engaged in realizing mining exploration work.

These tax rules also set deadlines for carrying out the exploration work, which must be performed no later than the earlier of the following dates:

- Two years following the flow-through placements;
- One year after the Company has renounced the tax deductions relating to the exploration work.

However, there is no guarantee that the Company's exploration expenses will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities could have a negative tax impact for investors.

The product of unspent funding related to flow-through financings totals $902,947 ($82,962 on May 31, 2016). According to the fiscal legislation imposed restrictions, the Company has to dedicate these funds to the exploration of Canadian mining properties.