

Khalkos Exploration Inc.

Management Interim Report for the three-month period ended May 31, 2017



TSX-V : KAS
www.khalkos.com



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TSX-V : KAS

**KHALKOS EXPLORATION INC.
MANAGEMENT INTERIM REPORT
FOR THE THREE-MONTH PERIOD ENDED
MAY 31, 2017**

This management discussion and analysis is dated July 25, 2017 and provides an analysis of financial results for the quarter ended May 31, 2017. This discussion and analysis of the financial position and results of operation should be read in conjunction with the unaudited interim financial statements for the three-month period ended May 31, 2017 and the audited financial statements for the years ended February 28, 2017 and February 29, 2016. The unaudited interim financial statements for the three-month period ended May 31, 2017 were not reviewed by the external auditors.

This report contains "forward-looking statements" not based on historical facts. Forward-looking statements express as of the date of this report, estimates, forecasts, projections, expectations and opinions as to future events or results. Forward-looking statements herein expressed are reasonable, but involve a number of risks and uncertainties, and there can be no assurance that such statements will prove to be accurate. Therefore, actual results and future events could differ materially from those anticipated in such statements. Factors that could cause results or events could differ materially from current expectations expressed or implied by the forward-looking statements include risks, uncertainty as to calculation of mineral reserves and requirements of additional financing and the capacity of the Company to obtain financing.

CORPORATE PROFILE AND MISSION

The exploration activities of Khalkos Exploration Inc. ("Khalkos" or "the Company") are focused mainly on the research and development of high narrow-vein gold deposits in Abitibi.

Common shares of Khalkos, a Tier 2 company, are trading on the TSX Venture Exchange, under the symbol "KAS". As of May 31, 2017, there are 59,550,731 ordinary shares issued.

Khalkos holds four properties in Quebec, on May 31, 2017 :

- MALARTIC (6 blocks of contiguous claims)
 - PART JAG (100%) : consists of 24 claims over 8 km² and is located in the heart of the Cadillac deformation, in Abitibi;
 - PART RÉVILLARD (option agreement) : consists of 30 claims over 11 km², including 2 own at 100% by Khalkos, in the Malartic mining camp;
 - PART LAKESHORE (100%) : consists of 28 claims covering 10 km². Contains the historic RLM index with over \$2M in accumulated credit for exploration;
 - PART DEANE (100%) : consists of 3 claims over 1,4 km², in the Cadillac township;
 - PART CADILLAC (100%) : consists of 2 claims over 1 km²;
 - PART JR (100%) : consists of 4 claims over 2 km², in the Malartic township.
- VILLEBON (100%) : consists of 43 claims over 18 km² and host of many gold veins in Abitibi, at 47 km south-east of Val-d'Or.
- FORSAN (100%) : consists of 27 claims over 8 km². Over \$2M in accumulated credit for exploration. Located about 10 km from the Villebon property.
- BELLETERRE : consists of the Blondeau-Guillet (68 claims (50%); Khalkos is the operator) and Chevrier properties (6 claims; 100%).

SUMMARY OF THE ACTIVITIES OF THE PERIOD

- Acquisition of three new blocks on the Malartic property;
- Boughback of NSR on the Forsan, Malartic, part JAG and part Lakeshore properties;
- Signature of an option agreement with Dundee Precious Metals Inc. for the Malartic property;
- Exploration and evaluation expenses of \$80,444, for the three-month period, incurred mostly on the Malartic, part Révillard property.

RESULTS OF OPERATIONS

Summary of exploration activities

The following table consists of the main exploration and evaluation expenses by the Company on its property during the period:

Properties	Geology-prospection \$	Geochemistry-analysis \$	Geophysics, line-cutting \$	Transport, helicopter, lodging \$	Drilling \$	General expenses \$	Total \$
Malartic, part Révillard	72,183	-	-	-	-	-	72,183
Forsan	8,261	-	-	-	-	-	8,261
Total	80,444	-	-	-	-	-	80,444

Other properties have not been subject to exploration work during the exercise.

EXPLORATION PROJECT

MALARTIC property

During the period, the majority of the exploration work was carried out on the Malartic property (Révillard part and recently acquired claims). The cost of exploration work was fully covered by Dundee Precious Metal ("Dundee"), with which Khalkos signed an option agreement for this property last May (see press release on May 23, 2017). Under the terms of the agreement, Dundee may acquire an undivided interest of 71% of the property.

In the first stage to acquire a 51% interest, in the first three years of the agreement, Dundee will be required to pay cash payments totaling \$412,500 to Khalkos, issue 70,000 common shares of its share capital and incur exploration expenditures of \$2.5M. For the second stage, over a next three years, Dundee will be able to acquire an additional 20% interest (for a total of 71%) by incurring exploration expenditures of \$3.5M.

The exploration work currently carried out on the Malartic property consist of prospecting, channel sampling, geological mapping with emphasis on structural interpretation. This geological reconnaissance and orientation work will enable Khalkos and Dundee to design first-class targets for a forthcoming drilling campaign. The majority of the exploration work carried out as of the date of this report was done in the western part and the central area of the property (Sediment and Révillard area).

FORSAN property

As a result of the option agreement signed with Dundee, Khalkos undertook geological interpretation work on the Forsan property. The integration of previous survey data has enabled geologists to clearly visualize a potential for gold mineralization extension for this property. The funds raised during the last financing of Khalkos will be invested on this property with high gold potential. An historical estimate of inferred resources, not compliant with NI 43-101, has already indicated the presence of 30,000 ounces of gold. An application for the license required to carry out a drilling campaign has been filed and Khalkos intends to invest funds available for exploration work on this property with a high economic potential.

SUMMARY OF FINANCIAL ACTIVITIES

The net loss of the Company was \$122,532 for the three-month period ended May 31, 2017 in comparison with \$85,506 for the three-month period ended May 31, 2016.

General and administrative expense analysis

General and administrative expenses, for the three-month period, went from \$54,914 in 2016 to \$97,721 in 2017.

	2017-2018	2016-2017
General and administrative expenses	For the three-month period ended May 31, 2017 \$	For the three-month period ended May 31, 2016 \$
Professional fees	48,828	16,532
Salaries and employee benefit expenses	22,964	21,059
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
Interests charges	-	556
Total	<u>97,721</u>	<u>54,914</u>

Comparing the general and administrative expenses for the three-month periods ended May 31, 2017 and 2016, we can observe an increase in *Professional fees* and *Investors and shareholders' relation*. The increase can be explained by the fees related to the acquisition of three blocks on the Malartic property, the boughback of NSR on three properties and the signing of an option agreement on the Malartic property.

SUMMARY OF QUARTERLY RESULTS

	2017-2018	2016-2017				2015-2016		
	Q1 \$	Q4 \$	Q3 \$	Q2 \$	Q1 \$	Q4 \$	Q3 \$	Q2 \$
Other revenues and expenses	(12,800)	6,405	(25,600)	(19,200)	(27,448)	(9,564)	7,703	(16,667)
Net loss	122,532	83,943	152,225	119,802	85,556	252,075	1,322	531,027
Net loss per share	0.002	0.001	0.003	0.003	0.002	0.006	-	0.015

Other revenues and expenses consist mainly of changes in value of listed shares, interest income on cash of the Company as well as the interest paid on trade and other payables.

In the last eight quarters, the quarterly net loss varied from \$1,322 to \$531,027.

In the Q2-2016, the Company wrote-off the Tilly property, increasing the net loss for an amount of \$428,542.

In the Q4-2016, the Company devaluated the Nanuq property, increasing the net loss for an amount of \$240,359.

The change in the fair value of the listed shares increased the net loss in the Q2-2016, Q4-2016, Q2-2017, Q3-2017 and Q1-2018 for amounts of \$16,667, \$8,333, \$19,200, \$25,600 and \$12,800 respectively; and decreased the net loss in the Q2-2016, Q1-2017 and Q4-2017 for amounts of \$8,333, \$79,307 and \$6,400 respectively.

In the Q1-2017, the Company reimbursed debts by issuing shares, creating a loss on settlement of debt, thus increasing the net loss for an amount of \$106,199.

CASH FLOW SITUATION

The working capital, including cash held for exploration expenses, varied from an amount of \$741,997 on February 28, 2017 to an amount of \$494,352 on May 31, 2017. During the period, cash was used for exploration and administrative activities.

Management of Khalkos evaluates that the amount of liquidity is low and continually controls very strictly its general and administrative expenses. The Company is considered to be in the exploration stage, thus it is dependent on obtaining regular financing in order to continue exploration. Despite previous success in acquiring sufficient financing, there is no guarantee of obtaining any future financing. Moreover, the current economic climate requires larger efforts than before to obtain funds from investors.

On May 31, 2017:

- 59,550,731 common shares issued;
- 3,500,000 options were granted and 2,982,500 of which can be exercised, at prices between \$0.10 and \$0.22 and between 2017 and 2021. Each option can be exchanged by its holder thereof for one common share of the Company;
- 2,777,516 warrants were issued. Each warrant can be exchanged by its holder thereof for one common share of the Company.

Share capital

Variation of the share capital as of July 25, 2017:

Description	Number of shares	Amount \$
As of February 28, 2017	56,425,731	7,662,134
Acquisition of mining rights	3,125,000	473,875
As of July 25, 2017	<u>59,550,731</u>	8,136,009

In April 2017, the Company issued 1,750,000 common shares to boughback a 3% NSR on the Malartic, part Lakeshore property and a 1% NSR on the Forsan property.

In May 2017, the Company issued 375,000 common shares to acquire the Malartic, part Deane, part Cadillac and part JR properties. Also, the Company issued 1,000,000 common shares to boughback a 1% NSR on the Malartic, part JAG property.

Options

Variation on outstanding options as of July 25, 2017:

Description	Number of options	Average exercise price \$
As of February 28, 2017	3,700,000	0.13
Expired	(200,000)	(0.10)
As of May 31, 2017	3,500,000	0.12
Cancelled	(300,000)	(0.10)
As of July 25, 2017	<u>3,200,000</u>	0.12

Options granted to directors, officers, employees and consultants and exercisable as of July 25, 2017:

Expiry date	Number of options granted	Number of options exercisable	Exercise price \$
October 24, 2017	500,000	500,000	0.10
April 18, 2018	200,000	200,000	0.10
April 7, 2019	600,000	600,000	0.10
August 26, 2019	550,000	550,000	0.10
October 28, 2019	200,000	200,000	0.12
August 23, 2021	1,150,000	632,500	0.16
	<u>3,200,000</u>	<u>2,682,500</u>	0.12

Warrants

Variation of warrants as of July 25, 2017:

Description	Number of warrants	Exercise price \$
As of February 28, 2017 and July 25, 2017	<u>2,777,516</u>	0.17

Outstanding warrants as of July 25, 2017:

Expiry date	Number of warrants	Exercise price \$
December 22, 2017	2,010,016	0.16
May 28, 2018	767,500	0.20
	<u>2,777,516</u>	0.17

RELATED PARTY TRANSACTIONS

Directors and officers

The remuneration of the directors and officers includes the following expenses:

	Three-month period ended	
	May 31, 2017 \$	May 31, 2016 \$
Salaries and employee benefit expenses	8,983	7,338
Share-based remuneration	13,335	433
	<u>22,318</u>	<u>7,771</u>

Associated 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, 2017, ExploLab inc. ("Explolab"), a company whose main shareholder is a director of the Company, 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).

SUSTAINABLE DEVELOPMENT PRINCIPALES

The Prospectors and Developers Association of Canada (PDAC) established a framework for responsible exploration called E3 Plus. The E3 Plus serves as a framework for exploration companies to continue their activities while improving their environmental, social and health and safety performance as well as integrating these three aspects in all their exploration work. Khalkos adopted the eight principals of E3 Plus and ask its consultants and suppliers to also respect them. Here are the main principals that apply to the Company:

- Apply ethical business practices: Khalkos continues to abide by management procedures that promote honesty, integrity, transparency and accountability.
- Engage host communities and other affected and interested parties: During exploration activities, Khalkos make sure to interact with local and native communities, notably trappers, organizations, groups and individuals on the basis of respect, inclusion and meaningful participation.
- Protect the environment: Khalkos conducts its exploration activities in ways that create minimal disturbance to the environment and applies, in all of its operations, the principals of sustainable development.

Moreover, on February 7, 2012, the Company's Board of Directors signed a resolution with the following commitments about sustainable governance:

- Concerning governance and responsible management, the Company must ensure:
 - That employees, of all levels, understand their social and environmental responsibilities and that they work towards improving their workplace environmental.
 - To plan, evaluate and manage all its projects with rigor in order to minimize the negative effects on the environmental and local communities.
- Maintaining an open dialogue is key to responsible management of projects on lands used by others. The Company must ensure:
 - To develop a proactive, open and transparent communication with local authorities (including Native communities), municipal authorities, as well as governmental organizations.
 - To develop a proactive communication with other parties involved from the region.
- Concerning health and safety, the Company must ensure:
 - To diligently apply the regulations, in terms of health and safety in all of its exploration activities.
- Concerning the environmental, the Company must ensure:
 - To apply with diligence, the environmental regulations in all of its exploration activities.

- Concerning socio-economic implications, the Company must ensure:
 - Whenever possible, to generate benefits on a local level and to contribute to the local development by constructively partnering with native and non-native communities in order to respectively consider the interest of all parties involved.

JUDGMENTS, ESTIMATES AND ASSUMPTIONS

Significant management judgment

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

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 recovered from either exploitation or sale when the activities have not reached a stage that permits a reasonable 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 are 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 other 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.

Share-based remuneration

The estimation of share-based payment 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 received. 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.

Off-balance sheet arrangements

The Company did not set up off-balance sheet arrangement, as of May 31, 2017.

RISK AND UNCERTAINTIES**Risk inherent to the industry**

Mineral exploration and development involve several risks which experience, knowledge and careful evaluation may not be sufficient to overcome. Large capital expenditures are required in advance of anticipated revenues from operations. Many exploration programs do not result in the discovery of mineralization; moreover, mineralization discovered may not be of sufficient quantity or quality to be profitably mined. Unusual or unexpected formations, formation pressures, fires, power outages, labor disruptions, flooding, explosions, tailings impoundment failures, cave-ins, landslides and the inability to obtain adequate machinery, equipment or labor are some of the risks involved in the conduct of exploration programs and the operation of mines. The commercial viability of exploiting any precious metal deposit is dependent on a number of factors including infrastructure and governmental regulations, in particular those respecting the environment, price, taxes and royalties. No assurance can be given that minerals of sufficient quantity, quality, size and grade will be discovered on any of the Company's properties to justify commercial operation. Numerous external factors influence and may have significant impacts on the operations of the Company and its financing need.

Financial risk

The Company is an exploration company. The Company will periodically have to raise additional funds to continue operations, and while it has been successful in doing so in the past, there can be no assurance it will be able to do so in the future.

Mining claims and title risks

Although the Company has taken steps to verify title to mining properties 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 title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

Tax

No assurance can be made that Canada Revenue Agency or Quebec Minister of Revenue will agree with the Company's characterization of expenditures as Canadian exploration expenses or Canadian development expenses.

Dependence on key personnel

The development of the Company's business is and will continue to be dependent on its ability to attract and retain highly qualified management and mining personnel. The Company faces competition for personnel from other employees.

Conflict of interest

Certain directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith of view to the best interests of the Company and to disclose any interest, which they may have any project or opportunity of the Company. If a conflict arises at a meeting of the Board of Directors, any director in a conflict will disclose his interest and abstain from voting on such matter.

Environmental risks

The Company is subject to various environmental incidents that can occur during exploration work. The Company maintains an environmental management system including operational plans and practices.

OTHER INFORMATION

This discussion and analysis of financial position and operating results as of May 31, 2017 should be read in conjunction with the unaudited interim financial statements for the three-month period ended May 31, 2017 and the audited financial statements for the years ended February 28, 2017 and February 29, 2016 of Khalkos, where necessary. More information can be found on the website www.sedar.com under Khalkos' section in "Sedar filling" or on the Khalkos' website www.khalkos.com under section "Investors".

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL INFORMATION

The Company's financial statements are the responsibility of the Company's management, and have been approved by the Board of Directors. The financial statements were prepared by the Company's management in accordance with International Financial Reporting Standards (IFRS). The financial statements include certain amounts based on the use of estimations and assumptions. Management has established these amounts in a reasonable manner, in order to ensure that the financial statements are presented fairly in all material respects.

Montreal. July 25, 2017.

(signed) Robert Gagnon, President

(signed) Eliane Tremblay-Paradis, Chief Financial Officer