



TAKU GOLD
CORP.

Taku Gold Corp.
(An Exploration Stage Company)

Condensed Interim Financial Statements
(Unaudited – Prepared by Management)

Three months ended March 31, 2018 and 2017
(Expressed in Canadian Dollars)

Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The accompanying condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by the entity's auditor.

Taku Gold Corp.

Condensed Interim Statements of Financial Position
March 31, 2018 and December 31, 2017
(Unaudited – Expressed in Canadian Dollars)

	Notes	March 31, 2018	December 31, 2017
Assets			
Current assets			
Cash and cash equivalents		\$ 480,189	\$ 426,733
Accounts receivable	5	73,385	70,717
Prepaid expenses and deposits		184	24,941
Marketable securities	4	20,000	23,000
		<u>573,758</u>	<u>545,391</u>
Reclamation bonds		25,000	25,000
Exploration and evaluation assets	6, 9	<u>5,184,922</u>	<u>5,234,459</u>
		\$ 5,783,680	\$ 5,804,850
Liabilities and shareholders' equity			
Current liabilities			
Accounts payable and accrued liabilities	9	<u>72,594</u>	<u>31,293</u>
Shareholders' equity			
Share capital	7	20,786,781	20,786,781
Contributed surplus	8	3,690,647	3,648,581
Deficit		<u>(18,766,342)</u>	<u>(18,661,805)</u>
		<u>5,711,086</u>	<u>5,773,557</u>
		\$ 5,783,680	\$ 5,804,850

Nature of operations and continuance of operations (Note 1)

Approved by the board of directors:

"C.F. Trey Wasser III" Director

"Lori Walton" Director

Taku Gold Corp.

Condensed Interim Statements of Comprehensive Loss

Three months ended March 31, 2018 and 2017

(Unaudited – Expressed in Canadian Dollars)

	Notes	<u>2018</u>	<u>2017</u>
Expenses			
Management and consulting fees	9	\$ 30,310	\$ 30,300
Professional fees	9	12,899	15,000
Office and miscellaneous	9	9,917	980
Transfer agent and filing fees		4,537	3,562
Travel and promotion		3,402	6,919
Stock-based compensation	8	<u>42,066</u>	<u>-</u>
		(103,131)	(56,761)
Other items			
Interest income		1,594	60
Fair value adjustment on marketable securities		<u>(3,000)</u>	<u>-</u>
		(1,406)	60
Net loss and comprehensive loss for the year		\$ (104,537)	\$ (56,701)
Basic and diluted loss per share		\$ (0.00)	\$ (0.00)
Weighted average number of common shares outstanding		<u>39,846,514</u>	<u>14,216,514</u>

Taku Gold Corp.

Condensed Interim Statements of Changes in Shareholders' Equity

Three months ended March 31, 2018 and 2017

(Unaudited – Expressed in Canadian Dollars)

	Notes	Number of Shares	Share Capital	Contributed Surplus	Deficit	Total
Balance, December 31, 2016		14,216,514	\$ 17,613,316	\$ 3,325,001	\$ (17,923,552)	\$ 3,014,765
Net loss and comprehensive loss for the period		-	-	-	(56,701)	(56,701)
Balance, March 31, 2017		14,216,514	\$ 17,613,316	\$ 3,325,001	\$ (17,980,253)	\$ 2,958,064
Balance, December 31, 2017		39,846,514	\$ 20,786,781	\$ 3,648,581	\$ (18,661,805)	\$ 5,773,557
Stock-based compensation	8	-	-	42,066	-	42,066
Net loss and comprehensive loss for the period		-	-	-	(104,537)	(104,537)
Balance, March 31, 2018		39,846,514	\$ 20,786,781	\$ 3,690,647	\$ (18,766,342)	\$ 5,711,086

See accompanying notes to the financial statements

Taku Gold Corp.

Condensed Interim Statements of Cash Flows
Three months ended March 31, 2018 and 2017
(Unaudited – Expressed in Canadian Dollars)

	Notes	2018	2017
Cash provided by (used in):			
Operating activities:			
Net loss for the period		\$ (104,537)	\$ (56,701)
Adjustments for:			
Stock-based compensation	8	42,066	-
Fair value adjustment on marketable securities	4	3,000	-
Change in non-cash working capital items			
Increase in receivables	5	(2,668)	(4,863)
Decrease in prepaid expenses		24,757	-
Increase in accounts payable and accrued liabilities		41,301	21,487
		<u>3,919</u>	<u>(40,077)</u>
Investing activities:			
Net recovery (investment) in exploration and evaluation assets	6	<u>49,537</u>	<u>(32,954)</u>
Change in cash		53,456	(73,031)
Cash – beginning of period		426,733	118,022
Cash – end of period		\$ 480,189	\$ 44,991

Taku Gold Corp.

Notes to the Condensed Interim Financial Statements
Three months ended March 31, 2018 and 2017
(Unaudited – Expressed in Canadian Dollars)

1. NATURE AND CONTINUANCE OF OPERATIONS

Taku Gold Corp. (the “Company”) was incorporated on July 19, 1999, under the laws of the province of British Columbia, Canada, and its principal activity is the acquisition and exploration of mineral properties in Canada. The Company’s shares are traded on the Canadian Securities Exchange (“CSE”) under the symbol “TAK” and on the OTCQB Venture Market in the United States under the symbol “TAKUF”.

The Company is currently exploring its mineral properties and has not yet determined the existence of economically recoverable reserves. The recoverability of the amounts shown for interests in mineral properties is dependent upon the discovery of economically recoverable reserves or proceeds from the disposition thereof, confirmation of the Company’s interest in the underlying mineral claims, the ability of the Company to obtain financing to complete development of the properties and on future profitable operations.

These financial statements have been prepared on the assumption that the Company will continue as a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. The Company has no source of operating cash flow and operations to date have been funded primarily from the issue of share capital. At March 31, 2018, the Company had a deficit of \$18,766,342 (December 31, 2017 - \$18,661,805) and incurred a net loss for the three month period of \$104,537 (2017 - \$56,701).

Management estimates that it has sufficient working capital to fund its operating costs over the next year, but not enough to undertake a significant amount of mineral exploration activities. The Company’s continued operations are dependent on its ability to raise additional funding from equity financings, loans, or other arrangements. There is no assurance that future financing activities will be successful. These conditions give rise to a material uncertainty which casts significant doubt on the Company’s ability to continue as a going concern, and, therefore, its ability to realize its assets and discharge its liabilities in the ordinary course of operations.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption not appropriate. Such adjustments could be material.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of presentation

These interim financial statements are unaudited and have been prepared in accordance with International Account Standards (“IAS”) 34, Interim Financial Reporting, using accounting policies consistent with the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). Certain information and footnote disclosure normally included in annual financial statements have been omitted or condensed. These condensed interim financial statements should be read in conjunction with the annual audited financial statements of the Company for the year ended December 31, 2017.

The policies applied in these condensed interim financial statements are based on IFRS issued and effective as of March 31, 2018. The Board of Directors approved the financial statements for issue on May 29, 2018.

Taku Gold Corp.

Notes to the Condensed Interim Financial Statements
Three months ended March 31, 2018 and 2017
(Unaudited – Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

These condensed interim financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair value.

b. Significant accounting policies

Except as set out below, these condensed interim financial statements follow the same accounting policies and methods of computation as the most recent audited annual financial statements of the Company for the year ended December 31, 2017. Accordingly, these condensed interim financial statements should be read in conjunction with the Company's most recent annual audited financial statements.

c. New accounting policy

The Company has adopted new accounting standard *IFRS 9 – Financial Instruments*, effective January 1, 2018. The new standard sets out requirements for classifying, recognizing and measuring financial assets and financial liabilities. This standard replaces *IAS 39 – Financial Instruments: Recognition and Measurement*.

IFRS 9 establishes three primary measurement categories for financial assets: fair value through profit and loss, fair value through other comprehensive income and amortized cost. The basis for classification depends on the entity's business model and the contractual cash flow characteristics of the instrument. For financial liabilities, the new standard retains most of the requirements of *IAS 39*, except that fair value changes due to changes in an entity's own credit risk are recorded in other comprehensive Income rather than in net earnings.

The change in accounting policy did not impact the Company's carrying value of any financial assets or liabilities. The following is the Company's new accounting policy for financial instruments.

Financial instruments are recognized on the date on which the Company becomes a party to the contractual provisions of the financial instrument. Financial assets are derecognized when the rights to receive cash flow from assets have expired or have been transferred and the Company has transferred all the risks and rewards of ownership. Financial liabilities are derecognized when the obligation specified in the contract is discharged, canceled, or expires. All financial instruments are initially recognized at fair value and measurement in subsequent periods is dependent upon the classification of the financial instrument.

The Company classifies and measures its financial instruments as follows:

Fair Value Through Profit and Loss ("FVTPL")

Cash and cash equivalents, accounts receivable, and marketable securities are classified as FVTPL. They are initially recognized at fair value and transaction costs are expensed in the statement of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial instruments are included in the statement of comprehensive loss in the period in which they occur. Changes in fair value of the financial instrument associated with the Company's own credit risk will be recognized in other comprehensive income.

Taku Gold Corp.

Notes to the Condensed Interim Financial Statements
Three months ended March 31, 2018 and 2017
(Unaudited – Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. New accounting policy (continued)

Amortized cost

Accounts receivable and account payable and accrued liabilities are classified as and measured at amortized cost using the effective interest rate method, adjusted for impairment losses, if any.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the years of change, if the change affects that year only, or in the year of the change of future years, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

Exploration and evaluation assets

The application of the Company's accounting policy for exploration and evaluation assets requires significant judgment in determining if a mineral property is impaired. The Company follows the guidance in IFRS 6 to determine when a mineral property is impaired. In making this judgement, the Company evaluates, among other factors, the results of exploration and evaluation activities to date and the Company's future plans to explore and evaluate the property.

Valuation of share-based payments

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

Going concern

The determination of the Company's ability to continue as a going concern requires significant judgement. Adjustments to the financial statements required if the going concern assumption proved inappropriate could be material.

Taku Gold Corp.

Notes to the Condensed Interim Financial Statements
Three months ended March 31, 2018 and 2017
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4. MARKETABLE SECURITIES

As at March 31, 2018, marketable securities comprise 200,000 common shares (December 31, 2017 - 200,000) in publicly traded company Independence Gold Corp., valued at \$20,000 (December 31, 2017 - \$23,000).

5. ACCOUNTS RECEIVABLE

As at March 31, 2018, accounts receivable consist of goods and services tax of \$73,378 (December 31, 2017 - \$70,646) and interest on guaranteed investment certificates of \$7 (December 31, 2017 - \$71). Accounts receivable are valued at amortized cost.

Taku Gold Corp.

Notes to the Interim Financial Statements
Three months ended March 31, 2018 and 2017
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6. EXPLORATION AND EVALUATION ASSETS

	Tagish (\$)	Rosebute (\$)	Bishop- Montana (\$)	Quartz (\$)	Sulphur (\$)	Wounded Moose (\$)	McQ (\$)	Keynote (\$)	Forty Mile (\$)	Chopin (\$)	Korat (\$)	Lucky Joe (\$)	Sonora Gulch (\$)	Total (\$)
Acquisition Costs														
Balance – December 31, 2016	1	296,089	8,600	50,371	273,083	45,222	44,338	-	-	-	-	-	-	717,704
Option payment - cash	-	25,000	-	-	-	-	-	35,000	20,000	-	-	-	-	80,000
Option payment - shares	-	-	-	-	-	-	-	60,000	183,750	183,750	183,750	183,750	900,000	1,695,000
Other	-	16,046	505	-	-	-	16,132	-	-	-	-	-	-	32,683
Balance – December 31, 2017	1	337,135	9,105	50,371	273,083	45,222	60,470	95,000	203,750	183,750	183,750	183,750	900,000	2,525,387
Other	-	6,595	-	913	7,955	-	-	-	-	-	-	-	-	15,463
Balance – March 31, 2018	1	343,730	9,105	51,284	281,038	45,222	60,470	95,000	203,750	183,750	183,750	183,750	900,000	2,540,850
Exploration & Evaluation Expenditure														
Balance – December 31, 2016	40,106	1,164,601	9,761	61,368	794,901	79,303	-	-	-	-	-	-	-	2,150,040
Assay	-	37,645	-	5,011	15,997	-	12,234	1,776	533	-	2,966	7,970	3,456	87,588
Logistics & support	-	19,230	-	2,425	14,628	-	5,307	998	2,063	3,581	1,460	3,770	1,378	54,840
Personnel	2,550	27,210	2,691	10,548	208,405	-	9,950	2,320	14,000	-	3,295	6,870	3,015	290,854
Transportation	-	49,065	-	1,000	10,324	-	24,452	2,373	6,013	-	3,157	18,097	200	114,681
Miscellaneous	-	6,679	-	-	-	1,841	-	-	1,167	-	199	-	1,183	11,069
Balance – December 31, 2017	42,656	1,304,430	12,452	80,352	1,044,255	81,144	51,943	7,467	23,776	3,581	11,077	36,707	9,232	2,709,072
Recoveries	-	-	-	-	(40,000)	-	(25,000)	-	-	-	-	-	-	(65,000)
Balance – March 31, 2018	42,656	1,304,430	12,452	80,352	1,004,255	81,144	26,943	7,467	23,776	3,581	11,077	36,707	9,232	2,644,072
Exploration & Evaluation Assets														
Balance – December 31, 2016	40,107	1,460,690	18,361	111,739	1,067,984	124,525	44,338	-	-	-	-	-	-	2,867,744
Balance – December 31, 2017	42,657	1,641,565	21,557	130,723	1,317,338	126,366	112,413	102,467	227,526	187,331	194,827	220,457	909,232	5,234,459
Balance – March 31, 2018	42,657	1,648,160	21,557	131,636	1,285,293	126,366	87,413	102,467	227,526	187,331	194,827	220,457	909,232	5,184,922

Taku Gold Corp.

Notes to the Interim Financial Statements
Three months ended March 31, 2018 and 2017
(Unaudited – Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

a) British Columbia, Canada

TAG Gold Silver Property, Atlin Mining Division

The Company holds a 100% interest in the TAG property subject to a 2.5% net smelter return (“NSR”) royalty of which 1.5% can be repurchased on the basis of \$500,000 per each 0.5%.

b) Yukon Territory, Canada

Rosebute Property, Dawson Mining Division

The Company holds a 100% interest in the Rosebute property. The property is subject to a 2.0% NSR royalty, of which 1.0% can be repurchased for \$2,000,000. An annual advance royalty payment of \$25,000 commenced in 2015 and continues for 10 years (\$250,000 total).

During the year ended December 31, 2016, the Company entered into an option agreement with Independence Gold Corp. (“Independence”), whereby Independence could acquire a 75% interest in the Rosebute property by paying total cash of \$295,000 (\$60,000 received), issuing a total of 1,000,000 million shares (200,000 shares received) and completing work expenditures of \$2,000,000 over a three-year period. During the year ended December 31, 2017, Independence terminated the option agreement and control of the property was returned to the Company.

Bishop-Montana Property, Dawson Mining Division

The Company holds a 100% interest in the Bishop-Montana property.

Quartz Property, Dawson Mining Division

The Company holds a 100% interest in the Quartz property. The property is subject to a 2.0% NSR royalty, of which 1.0% can be repurchased for \$1,000,000.

Sulphur Property, Dawson Mining Division

The Company holds a 100% interest in the Sulphur property. The property is subject to a 2.0% NSR royalty, of which 1.0% can be repurchased for \$1,000,000.

Wounded Moose Property, Dawson Mining Division

The Company holds a 100% interest in the Wounded Moose property. The property is subject to a 2.0% NSR royalty, of which 1.0% can be repurchased for \$1,000,000.

Taku Gold Corp.

Notes to the Interim Financial Statements
Three months ended March 31, 2018 and 2017
(Unaudited – Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

b) Yukon Territory, Canada (continued)

McQ Property, Mayo Mining Division

The Company holds a 100% interest in the McQ property.

Keynote property, Mayo Mining Division

During the year ended December 31, 2017, the Company acquired a 100% interest in the Keynote property for a total consideration of \$35,000 and 300,000 shares. The property is subject to 2.5% NSR royalty.

Chopin, Korat, Lucky Joe and 40 Mile Properties

During the year ended December 31, 2017, the Company completed a transaction with Golden Predator Mining Corp. (“Golden Predator”) to acquire a 100% interest in the Chopin, Korat and Lucky Joe properties and was assigned an option to earn a 100% interest on the 40 Mile property for total consideration of 3,500,000 shares. Further property details include:

- **Chopin** – The Chopin property is subject to a 1.0% NSR royalty to Golden Predator.
- **Korat** – The Korat property is subject to a 1.0% NSR royalty to Golden Predator
- **Lucky Joe** – The Lucky Joe property is subject to a 1.5% NSR royalty to Golden Predator and a further 1.5% NSR royalty to an underlying vendor, of which 0.75% can be repurchased from the underlying vendor for \$2,000,000.
- **40 Mile** - The 40 Mile property is subject to a 0.5% NSR royalty to Golden Predator and a further 2.0% NSR royalty to an underlying vendor, of which 1% can be repurchased from the underlying vendor for \$1,500,000. Additional obligations assumed under the option agreement assignment include:
 - a) Cash payments totalling \$200,000, as follows:
 - \$20,000 on September 30, 2017 (paid)
 - \$30,000 on September 30, 2018
 - \$40,000 on September 30, 2019
 - \$50,000 on September 30, 2020
 - \$60,000 on September 30, 2021
 - b) \$25,000 on completion of the first 750 meters of drilling (to be completed prior to September 30, 2019) and an additional \$25,000 on the next 750 meters of drilling (to be completed prior to September 30, 2020).
 - c) An annual advance royalty payment of \$10,000 commencing on September 30, 2022.
 - d) A payment of up to \$2,000,000 (at \$1.25 per ounce classed as inferred or higher) for a NI 43-101 compliant resource outlined in a Pre-Feasibility Study.

Taku Gold Corp.

Notes to the Interim Financial Statements
Three months ended March 31, 2018 and 2017
(Unaudited – Expressed in Canadian Dollars)

6. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

b) Yukon Territory, Canada (continued)

Sonora Gulch Property, Dawson Range Gold District

During the year ended December 31, 2017, the Company entered into an option agreement with Golden Predator whereby the Company can earn a 100% interest in the Sonora Gulch property. The property is subject to a 1% NSR to Golden Predator and an additional 1% NSR to underlying vendors, of which 0.5% can be repurchased from the underlying vendors for \$1,000,000.

In order to complete the option, the Company must issue an aggregate of 11,000,000 common shares as follows:

- 4,500,000 on the closing date (issued)
- 3,500,000 on August 1, 2018
(or that number of Taku commons shares equal in value to \$1,400,000 based on the 10-day volume weighted average price (“VWAP”) of Taku’s commons shares immediately prior to the first anniversary date, if the VWAP is greater than \$0.40)
- 3,000,000 on August 1, 2019
(or that number of Taku commons shares equal in value to \$1,400,000 based on the 10-day volume weighted average price (“VWAP”) of Taku’s commons shares immediately prior to the first anniversary date, if the VWAP is greater than \$0.40)

7. SHARE CAPITAL

Authorized share capital:

Unlimited Number of common shares without par value.

There were no share transactions during the three months ended March 31, 2018.

During the year ended December 31, 2017, the Company completed the following share transactions:

- In July 2017, the Company closed a private placement for 12,980,000 units at a price of \$0.10 per unit for gross proceeds of \$1,298,000. Each unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to acquire one additional common share of the Company at \$0.15 per share for a period of two years. The Company paid cash share issuance costs of \$75,504 and issued 766,800 agent warrants valued at \$161,028 in connection with the placement.
- In May 2017, the Company closed a private placement for 4,050,000 units at a price of \$0.10 per unit for gross proceeds of \$405,000. Each unit consists of one common share and one share purchase warrant, with each warrant entitling the holder to acquire one additional common share of the Company at \$0.15 per share for a period of two years. The Company paid cash share issuance costs of \$11,430 and issued 114,300 agent warrants valued at \$12,573 in connection with the placement.
- Issued 300,000 common shares on the exercise of warrants for proceeds of \$36,000.
- Issued 8,300,000 common shares valued at \$1,695,000 in connection with the acquisition of mineral properties (Note 6).

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8. STOCK OPTIONS AND WARRANTS

Stock options

The Company has adopted an incentive stock option plan, which allows the Company to issue non-transferable stock options to directors, officers, employees, consultants and other participants of the Company at the discretion of the Board of Directors and in accordance with the stock exchange requirements. Under the plan, options can be granted for a maximum term of five years and the total number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares at any time. The exercise price, expiry date, and vesting terms of each option is determined by the Board of Directors at the time of grant, provided that the exercise price may not be less than the price permitted by the policies of the stock exchange(s) on which the Company's common shares are listed.

Stock option transactions are summarized as follows:

	Outstanding Options	Weighted Average Exercise Price
Balance, December 31, 2016	1,360,000	\$ 0.09
Granted	2,400,000	0.17
Cancelled/Forfeited	(600,000)	0.20
Balance, December 31, 2017	3,160,000	\$ 0.13
Cancelled/Forfeited	(1,190,000)	0.11
Balance, March 31, 2018	1,970,000	\$ 0.15
Exercisable, March 31, 2018	945,000	

As at March 31, 2018, outstanding incentive stock options were as follows:

Expiry Date	Outstanding Options	Exercise Price (\$)
April 15, 2021	260,000	0.07
June 30, 2021	110,000	0.10
September 8, 2022	700,000	0.20
December 15, 2022	900,000	0.13
	1,970,000	0.15

During the period ended March 31, 2018, the Company recognized stock-based compensation related to options of \$42,066 (2017 - \$Nil).

The fair value of the options granted was estimated on the grant dates using the Black-Scholes option pricing model. No options were granted during the three months ended March 31, 2018. The assumptions used in calculating the fair values were as follows:

	2017
Risk-free interest rate	1.71% - 1.84%
Expected life of option	5.0 years
Expected dividend yield	0%
Expected stock price volatility	262% - 266%

Taku Gold Corp.

Notes to the Interim Financial Statements
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8. STOCK OPTIONS AND WARRANTS (CONTINUED)

Warrants

Share purchase warrant transactions are summarized as follows:

	Outstanding Warrants	Weighted Average Exercise Price (\$)
Balance, December 31, 2016	5,000,000	\$ 0.12
Granted	17,911,100	0.15
Exercised	(300,000)	0.12
Balance, December 31, 2017 and March 31, 2018	22,611,100	\$ 0.14

As at March 31, 2018, outstanding share purchase warrants were as follows:

Expiry Date	Outstanding Warrants	Exercise Price (\$)
June 10, 2018	4,700,000	0.12
May 18, 2019	4,164,300	0.15
July 4, 2019	13,746,800	0.15
	22,611,100	0.14

The fair value of the agent warrants granted was estimated on the grant dates using the Black-Scholes option pricing model. No agent warrants were granted during the three months ended March 31, 2018. The assumptions used in calculating the fair values were as follows:

	2017
Risk-free interest rate	0.67% - 1.13%
Expected life of warrant	2.0 years
Expected dividend yield	0%
Expected stock price volatility	237% - 239%

9. RELATED PARTY TRANSACTIONS

a) Balances outstanding

As at March 31, 2018, accounts payable and accrued liabilities include \$48,592 (December 31, 2017 - \$3,242) owing to officers or directors, companies controlled by officers or directors, or a significant shareholder of the Company.

Taku Gold Corp.

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9. RELATED PARTY TRANSACTIONS (CONTINUED)

b) Key management compensation

During the period ended March 31, 2018, the Company paid or accrued the following amount to key management (officer and directors), companies controlled by officers or directors, or a significant shareholder of the Company:

	<u>2018</u>	<u>2017</u>
Management and consulting fees	\$ 29,910	\$ 30,000
Professional fees	-	15,000
Office rent and supplies	6,000	-
Stock-based compensation	49,769	-
Mineral property – exploration expenditures	-	30,268
	<u>\$ 85,679</u>	<u>\$ 75,268</u>

10. FINANCIAL INSTRUMENTS

Fair value

Financial instruments include cash and any contract that give rise to a financial asset to one party and a financial liability or equity instrument to another party. As at March 31, 2018 and December 31, 2017, the Company's carrying values of cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair values due to their short term to maturity.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly;
and

Level 3 – Inputs that are not based on observable market data.

As at March 31, 2018 and December 31, 2017, the Company's marketable securities are based on level 1 inputs of the fair value hierarchy and the values are based on the closing trading price of the shares on public stock exchanges at the period-end date.

Financial risk management

Market risk

Market risk is the risk of loss that may arise from changes in market fluctuations such as those listed below. The fluctuations may be significant.

Taku Gold Corp.

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10. FINANCIAL INSTRUMENTS (CONTINUED)

Financial risk management (continued)

Foreign exchange risk

The Company operates mainly in Canada but a small portion of the Company's financial assets and liabilities are denominated in US dollars. The Company does not undertake currency-hedging activities but continuously monitors its exposure to foreign exchange risk to determine if any mitigation strategies warrant consideration.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents, short-term investments, receivables and reclamation bonds. The Company has no significant concentration of credit risk arising from operations. Cash and cash equivalents consist of cash held in bank accounts, short term investments consist of GIC's held at a major Canadian financial institution and accounts receivable consists of goods and services tax and a minimal amount of accrued interest on guaranteed investment certificates, for which management believes the risk of loss to be minimal. Reclamation bonds consist of term deposits and guaranteed investment certificates, which have been invested with reputable financial institutions, from which management believes the risk of loss to be minimal.

Interest rate risk

Interest rate risk mainly arises from the Company's cash and cash equivalents, which receive interest based on market interest rates. Fluctuations in interest cash flows due to changes in market interest rates are not significant.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its current obligations as they become due. The Company prepares annual exploration and administrative budgets and monitors expenditures to manage short-term liquidity. Due to the nature of the Company's activities, funding for long-term liquidity needs is dependent on the Company's ability to obtain additional financing through various means, including equity financing. There can be no assurance that the Company will be able to obtain adequate financing or that the terms of such financing will be favorable. As at March 31, 2018, the Company had working capital of \$501,164 (December 31, 2017 - \$514,098).

Price risk

The Company is exposed to price risk with respect to equity prices. Equity price risk is the risk of loss associated with movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock markets to determine appropriate actions to be taken by the Company. The Company has investments in certain publicly traded companies (marketable securities), and there can be no assurance that the Company can exit these positions if required, so there is a risk that proceeds may not approximate the carrying value of these investments. At March 31, 2018, a 10% fluctuation in the price of the Company's marketable securities would increase or decrease comprehensive loss by \$2,000 (December 31, 2017 - \$2,300).

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10. FINANCIAL INSTRUMENTS (CONTINUED)

Capital Management

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 exploration and development of its mineral properties, acquire additional mineral property interests and to maintain a flexible capital structure that optimizes the costs of capital at an acceptable level of risk. In the management of capital, the Company includes components of shareholders' equity. The Company manages the capital structure and adjusts 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 and marketable securities.

The Company is not currently subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the period ended March 31, 2018 and 2017.

11. CONTINGENCY

A former officer and director of the Company has requested compensation for being terminated without notice and for providing unpaid services in prior years totalling \$40,500. While the outcome of this claim is uncertain, the Company does not anticipate that it will result in a material financial liability, and no provision has been made in the financial statements.