

# Pilotgold

An exploration stage company

Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars - unaudited)

Six months ended June 30, 2016

**PILOT GOLD INC.**  
**Condensed interim consolidated statements of financial position**  
**(Expressed in United States Dollars - unaudited)**

	As at June 30, 2016	As at December 31, 2015
	<u>\$</u>	<u>\$</u>
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	6,157,047	7,811,674
Short term investments	96,304	100,743
Receivables and prepayments (Note 5)	831,103	779,931
Total current assets	<u>7,084,454</u>	<u>8,692,348</u>
<i>Non-current assets</i>		
Other financial assets (Note 6)	536,891	309,406
Deposits	1,463,513	1,408,469
Sales taxes receivable (Note 5)	1,075,427	1,128,963
Plant and equipment	306,147	322,858
Exploration properties and deferred exploration expenditures (Note 7)	80,665,824	76,647,172
Investment in associates (Note 8)	5,609,333	5,220,727
Total non-current assets	<u>89,657,135</u>	<u>85,037,595</u>
<b>Total assets</b>	<u>96,741,589</u>	<u>93,729,943</u>
 <b>Liabilities and Shareholders' Equity</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities (Note 9)	1,129,090	477,128
Total current liabilities	<u>1,129,090</u>	<u>477,128</u>
<i>Non-current liabilities</i>		
Deferred tax liabilities (Note 10)	427,646	474,823
Other liabilities	86,134	129,536
Total non-current liabilities	<u>513,780</u>	<u>604,359</u>
<i>Shareholders' equity</i>		
Share capital (Note 11)	157,441,903	155,186,833
Contributed surplus (Note 11)	21,830,855	20,209,503
Accumulated other comprehensive loss	(12,796,856)	(13,938,032)
Accumulated deficit	(94,469,166)	(91,849,189)
Total shareholders' equity	<u>72,006,736</u>	<u>69,609,115</u>
Non controlling interest (Note 12)	<u>23,091,983</u>	<u>23,039,341</u>
<b>Total liabilities and shareholders' equity</b>	<u>96,741,589</u>	<u>93,729,943</u>

The notes on pages 5 to 13 are an integral part of these condensed interim consolidated financial statements.

These financial statements are approved by the board and authorised for issue on August 9, 2016:

"Donald McInnes", Director

"Sean Tetzlaff", Director

**PILOT GOLD INC.**

**Condensed interim consolidated statements of loss and comprehensive loss  
(Expressed in United States Dollars - unaudited)**

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
	\$	\$	\$	\$
Operating expenses				
Wages and benefits	454,295	399,318	982,179	775,938
Office and general	238,214	304,939	628,816	573,679
Stock based compensation (Note 11)	51,351	197,473	343,601	684,479
Property investigation and technical studies	96,431	31,006	208,569	125,934
Professional fees	69,515	139,649	168,667	250,430
Investor relations, promotion and advertising	85,844	93,581	135,651	194,429
Listing and filing fees	9,426	2,424	42,244	44,943
Depreciation	19,536	33,146	38,097	70,603
Write down of deferred exploration expenditures	-	740,146	-	740,146
	<u>1,024,612</u>	<u>1,941,682</u>	<u>2,547,824</u>	<u>3,460,581</u>
Loss from operations				
Other income (expenses)				
Foreign exchange losses	(38,210)	(125,536)	(139,762)	(190,166)
Change in fair value and impairment of financial instruments	-	(67,675)	(90,595)	(127,386)
Gains (loss) from associates (Note 8)	(1,556)	(5,587)	342	(14,139)
Other net income	4,594	4,255	7,653	7,356
Finance income	25,010	38,708	32,231	63,824
Net gain on sale of financial instruments (Note 6)	89,074	-	89,074	-
	<u>78,912</u>	<u>(155,835)</u>	<u>(101,057)</u>	<u>(260,511)</u>
Loss before tax	945,700	2,097,517	2,648,881	3,721,092
Income tax (recovery) expense	83,121	126,886	(47,177)	126,886
<b>Loss for the period</b>	<u>1,028,821</u>	<u>2,224,403</u>	<u>2,601,704</u>	<u>3,847,978</u>
<b>Loss (gain) attributable to:</b>				
Shareholders	973,449	2,152,177	2,619,977	3,772,199
Non-controlling interests	55,372	72,226	(18,273)	75,779
	<u>1,028,821</u>	<u>2,224,403</u>	<u>2,601,704</u>	<u>3,847,978</u>
<b>Other comprehensive income (loss)</b>				
Items that may be reclassified subsequently to net income				
Exchange differences on translations	(14,213)	434,195	816,013	(3,969,311)
Net fair value gain (loss) on financial assets	265,244	(22,806)	332,289	(17,768)
Amounts reclassified into net loss on impairment of financial assets	(26,080)	-	(7,126)	-
Other comprehensive income (loss) for the period, net of tax	<u>224,951</u>	<u>411,389</u>	<u>1,141,176</u>	<u>(3,987,079)</u>
<b>Total loss and comprehensive loss for the period</b>	<u>803,870</u>	<u>1,813,014</u>	<u>1,460,528</u>	<u>7,835,057</u>
<b>Loss (gain) attributable to:</b>				
Shareholders	748,498	1,733,270	1,478,801	7,687,555
Non-controlling interests	55,372	79,744	(18,273)	147,502
<b>Total loss and comprehensive loss for the period</b>	<u>803,870</u>	<u>1,813,014</u>	<u>1,460,528</u>	<u>7,835,057</u>
<b>Loss per share</b>				
Basic and diluted loss per share	<u>\$ 0.01</u>	<u>\$ 0.02</u>	<u>\$ 0.02</u>	<u>\$ 0.04</u>
Weighted average number of Common Shares				
Basic and diluted	125,367,091	107,284,277	119,024,206	107,280,234

The notes on pages 5 to 13 are an integral part of these condensed interim consolidated financial statements.

**PILOT GOLD INC.**

**Condensed interim consolidated statements of changes in equity**  
**(Expressed in United States Dollars - unaudited)**

	Number of Common Shares #	Share capital \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Accumulated deficit \$	Total shareholders' equity \$	Non-controlling interest \$	Total equity \$
Balance as at December 31, 2014	107,235,497	155,081,135	19,088,697	(7,923,327)	(84,874,213)	81,372,292	3,737,851	85,110,143
Option exercise	48,780	53,557	(35,390)	-	-	18,167	-	18,167
Stock based compensation	-	-	788,712	-	-	788,712	-	788,712
Unrealized gain on long-term investments	-	-	-	(17,768)	-	(17,768)	-	(17,768)
Recognition of non-controlling interest on acquisition of control in Orta Truva	-	-	-	-	-	-	17,494,126	17,494,126
Contributions by non-controlling interest	-	-	-	-	-	-	1,055,121	1,055,121
Cumulative translation adjustment	-	-	-	(3,969,311)	-	(3,969,311)	(147,502)	(4,116,813)
Net loss for the period	-	-	-	-	(3,772,199)	(3,772,199)	(75,779)	(3,847,978)
Balance as at June 30, 2015	107,284,277	155,134,692	19,842,019	(11,910,406)	(88,646,412)	74,419,893	22,063,817	96,483,710
Balance as at December 31, 2015	107,344,284	155,186,833	20,209,503	(13,938,032)	(91,849,189)	69,609,115	23,039,341	92,648,456
Private placement	17,893,000	2,072,798	1,281,244	-	-	3,354,042	-	3,354,042
Share issue costs on private placement	-	(52,107)	-	-	-	(52,107)	-	(52,107)
Share issuance towards mineral property acquisition (Note 7a)	300,000	156,600	-	-	-	156,600	-	156,600
RSU exercises (Note 11)	91,560	77,779	(77,779)	-	-	-	-	-
Stock based compensation (Note 11)	-	-	417,887	-	-	417,887	-	417,887
Net impairment of long-term investments recognised in the statement of loss	-	-	-	(7,126)	-	(7,126)	-	(7,126)
Unrealized gain on long-term investments	-	-	-	332,289	-	332,289	-	332,289
Contributions by non-controlling interest (Note 7)	-	-	-	-	-	-	34,369	34,369
Cumulative translation adjustment	-	-	-	816,013	-	816,013	-	816,013
Net loss for the period	-	-	-	-	(2,619,977)	(2,619,977)	18,273	(2,601,704)
Balance as at June 30, 2016	125,628,844	157,441,903	21,830,855	(12,796,856)	(94,469,166)	72,006,736	23,091,983	95,098,719

The notes on pages 5 to 13 are an integral part of these condensed interim consolidated financial statements.

**PILOT GOLD INC.****Condensed interim consolidated statements of cash flows****(Expressed in United States Dollars - unaudited)**

	Six months ended June 30,	
	2016	2015
	\$	\$
<b>Cash flows from operating activities</b>		
Loss for the period	(2,601,704)	(3,847,978)
Adjusted for:		
Stock based compensation	369,330	694,094
Write-down of deferred exploration expenditures	-	740,146
Change in fair value and impairment of financial instruments	1,521	127,386
Deferred Tax expense	(47,177)	126,886
Other non-cash items on the statement of loss	(3,520)	109,219
Foreign exchange not related to cash	(45,716)	95,122
Movements in working capital:		
Accounts receivable and prepayments	8,702	(961)
Accounts payable and other liabilities	129,948	25,701
Net cash outflow due to operating activities	<u>(2,188,616)</u>	<u>(1,930,385)</u>
<b>Cash flows from financing activities</b>		
Cash received from financing	3,354,042	-
Share issue costs	(52,107)	-
Cash received from option exercise	-	18,167
Contributions from non-controlling interest	34,369	903,785
Cash inflow from financing activities	<u>3,336,304</u>	<u>921,952</u>
<b>Cash flows from investing activities</b>		
Change in working capital attributable to deferred exploration expenditures	474,512	(485,921)
Sale of equity investments	108,098	-
Maturity of short term investments	7,530	-
Purchase of reclamation deposits	(5,600)	-
Purchase and proceeds of sale of property and equipment	(19,153)	(9,817)
Funding to Associates	(54,830)	(140,194)
Acquisition of mineral property (Note 7a)	(800,000)	-
Interest in exploration properties and deferred exploration expenditures	(2,998,198)	(3,038,393)
Net sales tax recovery	-	377,662
Cash acquired with acquisition of controlling interest in Orta Truva	-	196,079
Cash received from Orta Truva for Eligible Expenditures	-	162,426
Expenditures towards Earn-in Option	-	(33,765)
Net cash outflow due to investing activities	<u>(3,287,641)</u>	<u>(2,971,923)</u>
Effect of foreign exchange rates	<u>485,326</u>	<u>(1,136,995)</u>
Net increase (decrease) in cash and cash equivalents	(1,654,627)	(5,117,351)
Cash and cash equivalents at beginning of period	7,811,674	13,842,109
Cash and cash equivalents at end of the period	<u>6,157,047</u>	<u>8,724,758</u>

See Note 15 for supplemental cash flow information

**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Condensed Interim Consolidated Financial Statements**

Six months ended June 30, 2016

(Expressed in United States Dollars, unless otherwise noted -unaudited)

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**1. GENERAL INFORMATION**

Pilot Gold Inc. (“Pilot Gold”, or the “Company”), is incorporated and domiciled in Canada, and its registered office is at Suite 1900 – 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9.

Pilot Gold is an exploration stage business engaged in the acquisition and exploration of mineral properties located primarily in the United States of America and Turkey.

The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The continued operations of the Company and the recoverability of the amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of such properties and upon future profitable production or proceeds from the disposition of the properties.

**2. BASIS OF PRESENTATION**

These unaudited condensed interim consolidated financial statements for the six months ended June 30, 2016 (the “Interim Financial Statements”) have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The Interim Financial Statements should be read in conjunction with the annual consolidated financial statements for the year ended December 31, 2015 (“Annual Financial Statements”), which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These Interim Financial Statements have been prepared using accounting policies consistent with those used in the Annual Financial Statements.

**4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Interim Financial Statements, the significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Annual Financial Statements.

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

Six months ended June 30, 2016

(Expressed in United States Dollars, unless otherwise noted -unaudited)

**5. RECEIVABLES AND PREPAYMENTS**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Sales taxes receivable	\$ 647,461	\$ 516,752
Other receivables	14,808	82,441
Prepayments	168,834	180,738
<b>Total</b>	<b>\$ 831,103</b>	<b>\$ 779,931</b>

Sales taxes receivable at June 30, 2016 include \$614,305 due to Orta Truva Madencilik Şanayi ve Ticaret A.Ş (“Orta Truva”); an additional \$1,075,427 is classified as non-current and is recoverable when production begins, or on sale of the licenses held by Orta Truva.

**6. OTHER FINANCIAL ASSETS**

From time to time, the Company may make strategic investments in other private or publicly traded entities. These investments are treated as long-term investments and may take the form of common shares or share purchase warrants.

Inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement are summarized in the three level hierarchies below:

- 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 June 30, 2016, Pilot Gold holds Level 1 equity securities with a total fair value of \$536,891 (at December 31, 2015: \$309,406). A total of 480,000 securities were sold for proceeds of \$108,098 during the period.

The total amount in other comprehensive income relating to available for sale financial instruments as at June 30, 2016 is \$909,199 (as at December 31, 2015: \$584,036).

**7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

Currently none of the Company’s properties have any known body of commercial ore or any established economic deposit; all are currently in the exploration stage. Expenditures at the Halilağa exploration project are recorded in the Company’s investment in Truva Bakır, an equity-accounted associate (Note 8).

The deferred exploration expenditures relating to the Company’s interest in several exploration properties in Nevada and Utah have been aggregated and are described as ‘Portfolio Projects’ in the table below:

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

Six months ended June 30, 2016

(Expressed in United States Dollars, unless otherwise noted -unaudited)

**7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)**

	Total December 31, 2014	TV Tower Acquisition	Additions/ Allocations	Write-down of asset	Total June 30, 2015	Total December 31, 2015	Acquisition Costs	Additions/ Allocations	Total June 30, 2016
	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>USA</b>									
Kinsley Mountain (Note 7b)	17,401,260	-	1,389,707	-	18,790,967	19,097,080	-	424,429	19,521,509
Goldstrike	8,651,362	-	208,098	-	8,859,460	9,685,941	-	2,124,145	11,810,086
Mineral Gulch (Note 7a)	-	-	-	-	-	-	1,010,926	9,577	1,020,503
Portfolio Projects (Note 16)	4,329,054	-	64,591	(740,146)	3,653,499	2,439,710	-	4,374	2,444,084
<b>Total USA</b>	<b>30,381,676</b>	<b>-</b>	<b>1,662,396</b>	<b>(740,146)</b>	<b>31,303,926</b>	<b>31,222,731</b>	<b>1,010,926</b>	<b>2,562,525</b>	<b>34,796,182</b>
<b>Turkey</b>									
TV Tower (Note 7c)	-	43,014,485	980,973	-	43,995,458	45,424,441	-	445,201	45,869,642
<b>Total Turkey</b>	<b>-</b>	<b>43,014,485</b>	<b>980,973</b>	<b>-</b>	<b>43,995,458</b>	<b>45,424,441</b>	<b>-</b>	<b>445,201</b>	<b>45,869,642</b>
<b>Total</b>	<b>30,381,676</b>	<b>43,014,485</b>	<b>2,643,369</b>	<b>(740,146)</b>	<b>75,299,384</b>	<b>76,647,172</b>	<b>1,010,926</b>	<b>3,007,726</b>	<b>80,665,824</b>

*a) Mineral Gulch, USA*

On June 14, 2016 the Company acquired 100% of the Mineral Gulch project from Western Pacific Resources Corporation ("Western Pacific") for a total consideration of \$1,010,926 consisting of \$800,000 cash and 300,000 Common Shares of the Company with a fair value of C\$0.67 each (Note 11b), as well as transaction costs of \$54,327. A 0.5% Net Smelter Return royalty has been granted to Western Pacific.

*b) Kinsley Mountain, USA*

The Company holds a 79.1% interest in Kinsley Gold LLC ("KG LLC") (Note 12), the entity that holds the underlying lease and directly held claims that comprise the Kinsley Mountain property (together, "Kinsley"). The non-controlling interest holder is Intor Resources Corporation.

The value of the non-controlling interest in KG LLC increased by \$34,369 during the six months ended June 30, 2016 upon receipt of funding from the non-controlling interest holder, Intor Resources Corporation.

*c) TV Tower, Turkey*

The Company holds a 60% interest in Orta Truva the entity that holds the TV Tower property (Note 12). The non-controlling interest holder is Teck Madencilik Şanayi Ticaret A.Ş ("TMST").

**8. INVESTMENT IN ASSOCIATES**

Pilot Gold owns 40% of the Halilağa project through a 40% ownership stake in Truva Bakır Maden İşletmeleri A.Ş. ("Truva Bakır"), a Turkish company that is controlled (60%) by TMST. Truva Bakır is private, and as such fair values of the Company's investment is not determinable through an active market.

	<b>Truva Bakır</b>
At December 31, 2015	\$ 5,220,727
Share of income	342
Funding	54,830
Foreign exchange differences	333,434
<b>At June 30, 2016</b>	<b>\$ 5,609,333</b>



**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

Six months ended June 30, 2016

(Expressed in United States Dollars, unless otherwise noted -unaudited)

**8. INVESTMENT IN ASSOCIATES (continued)**

The summarised financial information as at June 30, 2016 for Truva Bakır on a 100% basis is as follows:

	<b>Truva Bakır</b>
Current assets	\$ 214,433
Non-current assets	13,880,280
Current liabilities	(71,381)
Total net assets	\$ 14,023,332
% interest held	40%
Company's share of net assets	<b>\$ 5,609,333</b>
Income	856
% interest held	40%
Company's share of Income	<b>342</b>

**9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>June 30, 2016</b>	<b>December 31, 2015</b>
Trade payables	\$ 850,368	\$ 266,870
Other payables	16,151	56,018
Accrued liabilities	262,571	154,240
<b>Total</b>	<b>\$1,129,090</b>	<b>\$ 477,128</b>

Accounts payable and accrued liabilities are non-interest bearing and are normally settled on 30-day terms.

**10. DEFERRED TAX LIABILITY**

A deferred tax liability of \$427,646 has been recognised in the period ended June 30, 2016 arising from foreign exchange differences in the tax basis of the TV Tower mineral property held by Orta Truva.

**11. SHARE CAPITAL AND CONTRIBUTED SURPLUS***a) Authorized*

Unlimited Common Shares with no par value.

*b) Issued*

On June 14, 2016 as partial consideration for the acquisition of the Mineral Gulch property (Note 7a) 300,000 Common Shares of the Company were issued with a fair value of C\$0.67 per Common Share.

On March 4, 2016, the Company completed a non-brokered private placement for a total of \$3,354,042 (C\$4,473,250) (the "Private Placement"). Under the Private Placement, a total of 17,893,000 units of the Company ("Units") were issued at a price of C\$0.25 per Unit. Each Unit consists of one Common Share and one half of one Common Share purchase warrant ("Private Placement Warrant"). Each Private Placement Warrant entitles the holder to acquire one Common Share at an exercise price of C\$0.40 for a period of 2 years.

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

Six months ended June 30, 2016

(Expressed in United States Dollars, unless otherwise noted -unaudited)

**11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

The Units were valued using the residual method whereby the fair value of the warrant was determined to be C\$0.19 using the Black-Scholes valuation method and the following inputs: Stock price at issue C\$0.475, exercise price C\$0.40, risk free rate 0.52%, annualized volatility 62% and a 2 year expected life. Volatility was determined using the Company's share price volatility over the 2 years prior to issuance. The resulting allocation of the warrant fair value to the consideration received was Warrants: \$1,281,244 (C\$1,708,250) and Common Shares: \$2,072,799 (C\$2,764,469). A total of \$52,107 in transaction costs were recognised in equity.

*c) Stock-based compensation*

For the six months ended June 30, 2016, the Company has capitalized a total of \$48,557 of stock-based compensation to exploration properties and deferred exploration expenditures. For the six months ended June 30, 2016, the Company charged a total of \$369,330 of stock-based compensation expense to the statement of loss relating to stock-based compensation of which \$25,729 is attributed to property investigation and technical studies.

*Pilot Gold Stock Option Plan*

Options granted under the Pilot Gold Stock Option Plan (2014) are exercisable over period of five years. Options granted to Directors vest immediately, the remaining Options vest in thirds at the end of each year from the date of grant. Any consideration paid by the optionee on the exercise of Options is recorded to share capital.

Option transactions and the number of Options outstanding are summarized as follows:

	Options	Weighted Average Exercise Price
	#	C\$
Balance, December 31, 2015	6,925,333	1.55
Options granted	4,707,500	0.52
Options expired	(1,648,333)	2.18
Options forfeited	(549,167)	1.12
<b>Balance, June 30, 2016</b>	<b>9,453,333</b>	<b>0.95</b>

At June 30, 2016, Pilot Gold had incentive Options issued to directors, officers, employees and key consultants to the Company outstanding as follows:

Range of prices	Number of Options outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of Options exercisable	Weighted average exercise price of Options exercisable
	#	(in years)	C\$	#	C\$
C\$0.01 to C\$0.99	4,832,500	4.60	0.54	1,480,000	0.56
C\$1.00 to C\$1.99	3,537,833	2.26	1.14	2,664,833	1.14
C\$2.00 to C\$2.99	1,015,000	1.57	2.13	1,015,000	2.13
C\$3.00 to C\$3.99	50,000	4.79	3.45	50,000	3.45
	<b>9,435,333</b>	<b>3.40</b>	<b>0.95</b>	<b>5,209,833</b>	<b>1.19</b>

For the purposes of estimating the fair value of options using Black-Scholes, certain assumptions are made such as expected dividend yield, volatility of the market price of the Company's shares, risk-free interest rates and expected average life of the Options. We base our expectation of volatility on the volatility of similar publicly-listed companies, as the expected life of our Options exceeds our trading history.

The weighted average fair value of Options granted during the period determined using Black-Scholes was C\$0.26 per Option. The weighted average significant inputs into the model were share price of C\$0.49 at the grant date, exercise price of C\$0.52, volatility of 65%, dividend yield of 0%, an expected Option life of 5 years, and an annual risk-free interest rate of 0.71%. A 3.7% forfeiture rate is applied to the Option expense.

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

Six months ended June 30, 2016

(Expressed in United States Dollars, unless otherwise noted -unaudited)

**11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)***Restricted Share Units*

Restricted Share Units (“RSUs”) granted under the Pilot Gold RSU plan (2015) to employees and service providers of the Company vest in thirds at the end of each year from the date of grant.

Transactions relating to RSUs are summarised below:

	RSUs
	#
Balance, December 31, 2015	406,910
RSUs granted	125,000
RSUs forfeited	(43,367)
RSUs exercised	(91,560)
<b>Balance, June 30, 2016</b>	<b>396,983</b>

Expiry Date	RSUs outstanding	Weighted average remaining contractual life	RSUs vested
	#	(in years)	#
December 31, 2018	271,983	2.50	44,077
December 31, 2019	125,000	3.50	-
	<b>396,983</b>	<b>2.82</b>	<b>44,077</b>

*Deferred Share Units*

Deferred Share Units (“DSUs”) granted under the Pilot Gold DSU plan (2015) to Directors of the Company, have no expiration date and are redeemable upon termination of service.

Transactions relating to Deferred Share Units (“DSUs”) are summarised below:

	DSUs
	#
Balance, December 31, 2015	255,000
DSUs granted	153,000
<b>Balance, June 30, 2016</b>	<b>408,000</b>

*d) Warrants:*

Warrant transactions and the number of Warrants outstanding are summarized as follows:

	Number of Warrants	Weighted average remaining contractual life	Weighted average exercise price
	#	(in years)	C\$
Balance, December 31, 2015	4,218,157	0.16	2.00
Warrants issued (Note 11b)	8,946,500	1.71	0.40
<b>Balance, June 30, 2016</b>	<b>13,164,657</b>	<b>1.22</b>	<b>0.91</b>

No Warrants expired or were exercised in the six months ended June 30, 2016.

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

Six months ended June 30, 2016

(Expressed in United States Dollars, unless otherwise noted -unaudited)

**12. NON-CONTROLLING INTEREST**

Summary financial information for KG LLC and Orta Truva is as set out below. The information below is before intercompany eliminations. The loss in Orta Truva relates to foreign exchange and the deferred tax expense (Note 10).

## a) Summarised Balance Sheet

	KG LLC		Orta Truva	
	As at June 30, 2016	As at December 31, 2015	As at June 30, 2016	As at December 31, 2015
Current				
Assets	\$ 82,648	\$ 248,793	\$ 853,634	\$ 1,606,396
Liabilities	(166,549)	(26,144)	(98,522)	(914,081)
Total Current net assets	(83,901)	222,649	755,112	692,315
Non-Current				
Assets	20,773,967	20,303,891	23,607,247	23,171,223
Liabilities	(52,800)	(52,800)	(526,168)	(474,823)
Total Non-current net assets	20,721,167	20,251,091	23,081,079	22,696,400
Net Assets	<b>\$ 20,637,266</b>	<b>\$ 20,473,740</b>	<b>\$ 23,473,740</b>	<b>\$ 23,388,715</b>

## b) Summarised Statement of Loss

	KG LLC			
	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Statement of loss	\$ 310	\$ 5,087	\$ 601	\$ 5,087
Other comprehensive loss	-	-	-	-
Loss and other comprehensive loss	<b>\$ 310</b>	<b>\$ 5,087</b>	<b>\$ 601</b>	<b>\$ 5,087</b>

	Orta Truva			
	Three months ended June 30,		Six months ended June 30,	Period from March 12 to June 30,
	2016	2015	2016	2015
Statement of loss (gain)	\$ 138,266	\$ 250,381	\$ (45,999)	\$ 428,659
Other comprehensive loss	-	-	-	-
Loss and other comprehensive loss (gain)	<b>\$ 138,266</b>	<b>\$ 250,381</b>	<b>\$ (45,999)</b>	<b>\$ 428,659</b>

## c) Summarised cash flows

	KG LLC		Orta Truva	
	Six months ended June 30, 2016	2015	Six months ended June 30, 2016	Period from March 12 to June 30, 2015
Net cash flow from:				
operating activities	\$ (601)	\$ (5,087)	\$ (8,992)	\$ (46,462)
financing activities	226,680	2,147,557	500,000	1,537,644
investing activities	(392,224)	(1,650,679)	(1,361,160)	(1,371,434)
Net increase (decrease) in cash	(166,145)	491,791	(870,152)	119,748
Cash at the beginning of the period	247,414	118,543	1,108,096	-
Cash at the end of the period	<b>\$ 81,269</b>	<b>\$ 610,334</b>	<b>\$ 237,944</b>	<b>\$ 119,748</b>

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

Six months ended June 30, 2016

(Expressed in United States Dollars, unless otherwise noted -unaudited)

**13. COMMITMENTS***Leases*

The Company has entered into operating leases for premises in the United States and Turkey. The lease terms are between two and four years; each lease is renewable at the end of the lease period at market rate. Office premises and other operating leases in Canada are paid to Oxygen, pursuant to the "Oxygen Agreement". Upon termination of the Oxygen Agreement, the Company is required to indemnify Oxygen for costs associated with those agreements or obligations that had been executed or incurred by Oxygen in connection with, or related to the services provided to the Company by Oxygen. These amounts, as pertaining to non-cancellable leases, are included in the table below. The aggregate lease expenditure related to Pilot Gold's office premises charged to the statement of loss for the six months ended June 30, 2016 is \$67,509 with an additional \$27,718 in contingent rental expenditures which consist of operating costs.

Total future minimum lease payments, under non-cancellable operating leases as at June 30, 2016 are as follows:

Year	
2016	\$ 116,950
2017	225,344
2018	143,624
2019	131,751
2020+	515,803
	<b>\$ 1,133,473</b>

The Company is also responsible for its share of property taxes and operating costs on office premises leases in Canada, Turkey and the United States.

**14. SEGMENT INFORMATION**

The Company's operations are in one segment, the exploration for gold, copper and other precious and base metals. At June 30, 2016 and December 31, 2015, respectively, Pilot Gold has three geographic locations: Canada, the USA, and Turkey. The total assets attributable to the geographic locations relate primarily to the exploration properties and deferred exploration expenditures held by the Company and its associates, and have been disclosed in Notes 7 and 8. The net loss is distributed by geographic segment per the table below:

	Three months ended June 30,		Six months ended June 30,	
	2016	2015	2016	2015
Canada	\$ 548,241	\$ 840,594	\$ 1,564,281	\$ 1,880,044
USA	281,543	994,820	773,968	1,275,232
Turkey	199,037	388,989	263,455	692,702
	<b>\$ 1,028,821</b>	<b>\$ 2,224,403</b>	<b>\$ 2,601,704</b>	<b>\$ 3,847,978</b>

Plant and equipment are distributed by geographic segment per the table below:

	June 30, 2016	December 31, 2015
Canada	\$ 112,277	\$ 108,603
USA	155,451	166,500
Turkey	38,419	47,755
	<b>\$ 306,147</b>	<b>\$ 322,858</b>

The Company is in the exploration stage and accordingly, has no reportable segment revenues.

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

Six months ended June 30, 2016

(Expressed in United States Dollars, unless otherwise noted -unaudited)

**15. SUPPLEMENTAL CASH FLOW INFORMATION**

Non-cash financing and investing transactions:

	<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Non-cash financing and investing transactions		
Common Shares issued in partial consideration for mineral property (Note 7a)	\$ 156,599	\$ -
Stock based compensation within deferred exploration expenditures (Note 11)	48,557	94,619
	<b>\$ 205,156</b>	<b>\$ 94,619</b>

**16. RELATED PARTY TRANSACTIONS**

In addition to the following, the Company's related parties include its subsidiaries, and associates over which it exercises significant influence. Transactions with the Company's associates are described at Note 8.

*Oxygen Capital Corp*

Oxygen is a private company owned by three directors and one officer of the Company. Oxygen provides services to the Company and provides access to technical personnel, office rental, the use of the assets including Information Technology infrastructure and other administrative functions on an as-needed basis that would not necessarily otherwise be available to Pilot Gold at this stage of the Company's development. Oxygen does not charge a fee to the Company, allocating all expenses at cost. Related party transactions during the period total \$344,810 in expenditures, reflected in the Company's consolidated statement of loss and comprehensive loss. As at June 30, 2016, Oxygen holds a refundable deposit of \$244,419 on behalf of the Company. Additionally, as at June 30, 2016 the Company held a payable to Oxygen of \$104,607. Amounts payable were settled subsequent to period end. See also Note 13 for details on commitments related to lease arrangements.

*Compensation of key management personnel*

Key management includes members of the Board, the President and Chief Executive Officer, the VP Exploration & Geoscience, the Chief Financial Officer & Corporate Secretary, and the Country Managers. The aggregate total compensation paid, is shown below:

	<b>Six months ended June 30,</b>	
	<b>2016</b>	<b>2015</b>
Salaries and other short-term employee benefits	\$ 464,003	\$ 785,533
Share-based payments	421,628	479,129
<b>Total</b>	<b>\$ 885,631</b>	<b>\$ 1,264,662</b>

**17. SUBSEQUENT EVENTS***Portfolio Exploration Projects Option Agreement*

On July 7, 2016, the Company signed an Option Agreement with Logan Resources Ltd ("Logan") under which Logan may earn up to an 80% interest in up to four of the following nine of the Company's properties: Drum, Griffon, Antelope, Sandy, Easter, Brik, Stateline, Viper, and Anchor (the "Properties"). Logan may earn an initial 51% interest in 4 of the 9 Properties (the "Selected Properties") by incurring \$1,000,000 in cumulative exploration costs within the first year, and an additional 19% interest in the Selected Properties by incurring an additional \$2,000,000 in exploration expenditures within the first 3 years, and issuing an 1,000,000 shares to Pilot Gold on completion of the 70% earn-in requirement. Logan may earn an additional 10% (to a total of 80%) interest in any of the Selected Properties by completing a prefeasibility study on that Property, prepared in accordance with National Instrument 43-101. As consideration for entering into the Option Agreement, Logan will issue 9.9% of its issued and outstanding shares to the Company, and will reimburse the Company for 100% of the 2016 annual holding costs paid by the Company to date for the Properties. Logan will be responsible to maintain the Properties in good standing during the period of earn-in, and for the Properties not selected upon earn-in, must also reimburse Pilot Gold for claims fees for the ensuing year.

*Option cancellation*

A total of 955,000 Options issued on February 13, 2013 were cancelled on July 25, 2016. The Options had a 5 year term and an exercise price of \$2.13.