

# Pilotgold

An exploration stage company

Consolidated Financial Statements

(Expressed in US Dollars)  
Year ended December 31, 2015



March 17, 2016

## **Independent Auditor's Report**

### **To the Shareholders of Pilot Gold Inc.**

We have audited the accompanying consolidated financial statements of Pilot Gold Inc., which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

#### **Management's responsibility for the consolidated financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pilot Gold Inc. as at December 31, 2015 and December 31, 2014 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*signed "PricewaterhouseCoopers LLP"*

**Chartered Professional Accountants**

**PILOT GOLD INC.**  
**Consolidated statements of financial position**  
**(Expressed in United States Dollars)**

	As at December 31,	
	2015	2014
	\$	\$
<b>Assets</b>		
<i>Current assets</i>		
Cash and cash equivalents	7,811,674	13,842,109
Short term investments	100,743	4,028,676
Receivables and prepayments (Note 6)	779,931	1,518,565
Total current assets	<u>8,692,348</u>	<u>19,389,350</u>
<i>Non-current assets</i>		
Other financial assets (Note 7)	309,406	514,089
Deposits (Note 8)	1,408,469	1,283,024
Sales taxes receivable (Note 6)	1,128,963	-
Plant and equipment (Note 9)	322,858	409,358
Exploration properties and deferred exploration expenditures (Note 10)	76,647,172	30,381,676
Earn-in option (Note 10a)	-	19,786,018
Investment in associates (Note 11)	5,220,727	15,083,066
Total non-current assets	<u>85,037,595</u>	<u>67,457,231</u>
<b>Total assets</b>	<u>93,729,943</u>	<u>86,846,581</u>
 <b>Liabilities and Shareholders' Equity</b>		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities (Note 12)	477,128	1,620,799
Total current liabilities	<u>477,128</u>	<u>1,620,799</u>
<i>Non-current liabilities</i>		
Deferred tax liabilities (Note 13)	474,823	-
Other liabilities	129,536	115,640
Total non-current liabilities	<u>604,359</u>	<u>115,640</u>
<i>Shareholders' equity</i>		
Share capital (Note 14)	155,186,833	155,081,135
Contributed surplus (Note 14)	20,209,503	19,088,696
Accumulated other comprehensive loss	(13,938,032)	(7,923,327)
Accumulated deficit	(91,849,189)	(84,874,213)
Total shareholders' equity	<u>69,609,115</u>	<u>81,372,291</u>
Non controlling interest (Note 15)	<u>23,039,341</u>	<u>3,737,851</u>
<b>Total liabilities and shareholders' equity</b>	<u>93,729,943</u>	<u>86,846,581</u>

The notes on pages 5 to 27 are an integral part of these consolidated financial statements.

These financial statements are approved by the board and authorised for issue on March 17, 2016:

"Donald McInnes", Director

"Sean Tetzlaff", Director

**PILOT GOLD INC.****Consolidated statements of loss and comprehensive loss  
(Expressed in United States Dollars)**

	Year ended December 31,	
	2015	2014
	\$	\$
Operating expenses		
Write down of deferred exploration expenditures (Note 10d)	2,091,327	143,038
Wages and benefits	1,720,622	1,824,684
Office and general	1,144,857	1,211,324
Stock based compensation (Note 14)	988,468	1,221,740
Property investigation and technical studies	335,390	603,739
Professional fees	448,903	353,204
Investor relations, promotion and advertising	296,730	474,545
Depreciation	118,800	171,916
Listing and filing fees	51,508	46,588
	<u>7,196,605</u>	<u>6,050,778</u>
Loss from operations		
Other income (expenses)		
Change in fair value and impairment of financial instruments	(153,663)	(894,120)
Loss from associates (Note 11)	(63,345)	(63,138)
Other net (expense) income	93,919	(81,357)
Finance income	167,776	320,992
Foreign exchange gains	224,486	59,303
	<u>269,173</u>	<u>(658,320)</u>
Loss before tax	6,927,432	6,709,098
Income tax expense	474,823	-
	<u>7,402,255</u>	<u>6,709,098</u>
<b>Loss for the period</b>		
<b>Loss attributable to:</b>		
Shareholders	6,974,976	6,709,098
Non-controlling interests	427,279	-
	<u>7,402,255</u>	<u>6,709,098</u>
<b>Other comprehensive loss</b>		
Items that may be reclassified subsequently to net income		
Exchange differences on translations	(6,020,183)	(4,424,736)
Net fair value gain on financial assets	5,478	575,538
Amounts reclassified into net loss on impairment of financial assets	-	22,655
Other comprehensive loss for the period, net of tax	<u>(6,014,705)</u>	<u>(3,826,543)</u>
<b>Total loss and comprehensive loss for the period</b>	<u>13,416,960</u>	<u>10,535,641</u>
<b>Attributable to:</b>		
Shareholders	12,989,681	10,535,641
Non-controlling interests	427,279	-
<b>Total loss and comprehensive loss for the period</b>	<u>13,416,960</u>	<u>10,535,641</u>
<b>Loss per share</b>		
Basic and diluted loss per share	<u>\$ 0.07</u>	<u>\$ 0.07</u>
Weighted average number of Common Shares Basic and diluted	107,306,277	101,154,616

The notes on pages 5 to 27 are an integral part of these consolidated financial statements.

**PILOT GOLD INC.****Consolidated statements of changes in equity  
(Expressed in United States Dollars)**

	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, 2013	89,940,333	133,117,092	16,319,202	(4,096,784)	(78,165,115)	67,174,395	2,423,077	69,597,472
Issuances as consideration for mineral property rights	4,218,164	5,050,408	1,290,563	-	-	6,340,971	-	6,340,971
Issuances on private placement	13,072,000	18,130,145	-	-	-	18,130,145	-	18,130,145
Share issue costs on private placement	-	(1,224,336)	-	-	-	(1,224,336)	-	(1,224,336)
Option exercise	5,000	7,826	(2,946)	-	-	4,880	-	4,880
Stock based compensation	-	-	1,481,878	-	-	1,481,878	-	1,481,878
Net impairment of long-term investments recognised in the statement of loss	-	-	-	22,655	-	22,655	-	22,655
Unrealized gain on long-term investments	-	-	-	575,538	-	575,538	-	575,538
Contributions by non-controlling interest	-	-	-	-	-	-	1,314,774	1,314,774
Cumulative translation adjustment	-	-	-	(4,424,736)	-	(4,424,736)	-	(4,424,736)
Net loss for the period	-	-	-	-	(6,709,098)	(6,709,098)	-	(6,709,098)
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, DSU and warrant exercises (Note 14)	108,787	105,698	(87,519)	-	-	18,179	-	18,179
Stock based compensation (Note 14)	-	-	1,208,325	-	-	1,208,325	-	1,208,325
Unrealized gain on long-term investments	-	-	-	5,478	-	5,478	-	5,478
Recognition of non-controlling interest on acquisition of control in Orta Truva (Note 10c)	-	-	-	-	-	-	17,494,125	17,494,125
Contributions by non-controlling interest (Note 15)	-	-	-	-	-	-	2,234,644	2,234,644
Cumulative translation adjustment	-	-	-	(6,020,183)	-	(6,020,183)	-	(6,020,183)
Net loss for the period	-	-	-	-	(6,974,976)	(6,974,976)	(427,279)	(7,402,255)
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

The notes on pages 5 to 27 are an integral part of these consolidated financial statements.

**PILOT GOLD INC.**  
**Consolidated statements of cash flows**  
**(Expressed in United States Dollars)**

	Year ended December 31,	
	2015	2014
	\$	\$
<b>Cash flows from operating activities</b>		
Loss for the period	(7,402,255)	(6,709,098)
Adjusted for:		
Stock based compensation	1,028,821	1,306,793
Write-down of deferred exploration expenditures (Note 10d)	2,091,327	143,038
Change in fair value and impairment of financial instruments	153,663	894,120
Deferred Tax expense	474,823	
Other non-cash expenditures on the statement of loss	142,962	351,744
Foreign exchange not related to cash	(34,274)	194,737
Interest income on short term investments	(62,319)	(46,901)
Movements in working capital:		
Accounts receivable and prepayments	(2,166)	21,720
Accounts payable and other liabilities	(250,239)	(1,209,274)
Net cash outflow due to operating activities	<u>(3,859,657)</u>	<u>(5,053,121)</u>
<b>Cash flows from financing activities</b>		
Cash received from financing	-	18,130,145
Share issue costs	-	(1,224,336)
Cash received from option exercise	18,167	-
Contributions from non-controlling interest	2,187,813	1,314,774
Cash inflow from financing activities	<u>2,205,980</u>	<u>18,220,583</u>
<b>Cash flows from investing activities</b>		
Change in working capital attributable to deferred exploration expenditures	(863,412)	197,154
Cash received from Orta Truva for Eligible Expenditures	-	4,803,425
Eligible Expenditures on TV Tower prior to earn in	(259,322)	(5,141,673)
Funding to Associates	(379,780)	(1,825,293)
Purchase of short term investments	-	(4,117,285)
Maturity of short term investments	3,622,759	8,797,907
Net sales tax recovery	585,997	-
Purchase and proceeds of sale of property and equipment	(56,958)	(52,755)
Transaction costs net of cash received for Cadillac Acquisition (Note 10b)	-	(509,577)
Cash acquired with acquisition of controlling interest in Orta Truva	196,078	-
Expenditures towards Earn-in Option	(33,765)	(3,231,680)
Interest in exploration properties and deferred exploration expenditures	(5,080,402)	(7,032,183)
Purchase of reclamation deposits	(28,900)	(84,522)
Net cash outflow due to investing activities	<u>(2,297,705)</u>	<u>(8,196,482)</u>
Effect of foreign exchange rates	<u>(2,079,053)</u>	<u>(935,255)</u>
Net increase (decrease) in cash and cash equivalents	(6,030,435)	4,035,725
Cash and cash equivalents at beginning of period	13,842,109	9,806,384
Cash and cash equivalents at end of the period	<u>7,811,674</u>	<u>13,842,109</u>

See Note 20 for supplemental cash flow information

## PILOT GOLD INC.

(An exploration stage company)

### Notes to the Consolidated Financial Statements

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

#### 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 consolidated financial statements, including comparative figures, have been prepared using accounting policies in compliance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”).

#### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies used in the preparation of these consolidated financial statements are set out below.

##### *(a) Basis of measurement*

The consolidated financial statements have been prepared under the historical cost convention, except for financial assets classified as available-for-sale and fair value through profit and loss which are measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

##### *(b) Basis of consolidation*

The financial statements of Pilot Gold consolidate the accounts of Pilot Gold Inc. and its subsidiaries. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

The principal subsidiaries of Pilot Gold and their geographic locations at December 31, 2015 were as follows:

Name of subsidiary	Principal activity	Location	Proportion of ownership interest and voting power held	Non-Controlling Interest
Pilot Gold USA Inc.	Mineral exploration	United States	100%	-
Kinsley Gold LLC (“KGLLC”)	Mineral exploration	United States	79%	21%
Agola Madencilik Limited Şirketi (“Agola”)	Mineral exploration	Turkey	100%	-
Orta Truva Madencilik Şanayi ve Ticaret A.Ş. (“Orta Truva”)	Mineral exploration	Turkey	60%	40%
Cadillac Mining Corporation (“Cadillac”)	Mineral exploration	Canada	100%	-
Cadillac South Explorations Inc.	Mineral exploration	United States	100%	-



**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Consolidated Financial Statements**

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(c) Investments in associates*

The Company conducts a portion of its business through equity interests in associates. An associate is an entity over which Pilot Gold has significant influence, but not control. The financial results of Pilot Gold's investments in its associates are included in Pilot Gold's results according to the equity method. Under the equity method, the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of earnings and losses of the associate and for impairment losses after the initial recognition date. The Company's share of an associate's losses that are in excess of its investment in the associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of earnings and losses of associates is recognized in net income (loss) during the period. Distributions received from an associate are accounted for as a reduction in the carrying amount of the Company's investment.

Transactions and balances between the Company and its associates are not eliminated. Unrealized gains on transactions between Pilot Gold and an associate are eliminated to the extent of Pilot Gold's interest in the associate. Unrealized losses are also eliminated to the extent of the Company's interest in the associate unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of loss.

At the end of each reporting period, Pilot Gold assesses whether there is any objective evidence that its investment interests in associates are impaired. If impaired, the carrying value of Pilot Gold's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the statement of loss. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in associate is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net earnings (loss) in the period the reversal occurs.

*(d) Foreign currencies*

Items included in the financial statements of each subsidiary and associate in the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in United States dollars.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date, giving rise to foreign exchange gains and losses in the statement of loss.

Pilot Gold raises its financing and carries out head office expenditures in Canadian dollars ("C\$"), giving rise to a Canadian dollar functional currency. In order to enhance comparability with our peers and as a better representation of the principal currency used by the mining and mineral exploration industry, the presentation currency of these consolidated financial statements is United States dollars. Any assets and liabilities of the Company held in foreign currencies are expressed in United States dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in this case, the exchange rates at the dates of the transactions are used. Equity transactions are translated using the exchange rate at the date of the transaction. Exchange differences arising from assets and liabilities held in foreign currencies, are recognised in other comprehensive income (loss) as cumulative translation adjustments.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income (loss) related to the foreign operation are recognized in profit or loss.

*(e) Cash and cash equivalents*

Cash and cash equivalents comprise cash on hand, and deposits in banks that are readily convertible into a known amount of cash, or with an initial maturity of less than 90 days.

**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Consolidated Financial Statements**

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*(f) Exploration properties and deferred exploration expenditures*

Acquisition and exploration expenditures on properties are deferred until such time as the properties are put into commercial production, sold or become impaired. Costs incurred before Pilot Gold has obtained legal rights to explore an area are recognized in the statement of loss. General exploration expenditures are charged to operations in the period in which they are incurred. Pilot Gold recognizes the payment or receipt of amounts required under option agreements as an addition or reduction, respectively, in the book value of the property under option when paid or received.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Although we have taken steps to verify title to mineral properties in which we have an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee our title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

*(g) Plant and equipment*

Plant and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Cost consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Pilot Gold and the cost can be measured reliably. Repairs and maintenance costs are charged to the statement of loss during the period in which they are incurred.

The major categories of plant and equipment noted below are depreciated over their estimated useful life using the following annual rates and methods:

Field equipment	20%	Declining balance
Equipment	30%	Declining balance
Computer software	50%	Straight line
Furniture and fixtures	20%	Declining balance
Leasehold improvements		Term of lease

Depreciation expense of assets used in exploration is capitalized to deferred exploration expenditures, earn-in option, or investment in associate as appropriate. Management reviews the estimated useful lives, residual values and depreciation methods of the Company's plant and equipment at the end of each financial year and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized, if the recognition criteria are satisfied.

*(h) Impairment of long-lived assets*

Plant and equipment, exploration properties and deferred exploration expenditures are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment is assessed on an asset-by-asset basis. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

*(i) Provisions and constructive obligations*

Provisions, including environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

## PILOT GOLD INC.

(An exploration stage company)

### Notes to the Consolidated Financial Statements

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

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### 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Constructive obligations are obligations that derive from the Company's actions where:

- (i) An established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
- (ii) As a result, Pilot Gold has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Where the time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

#### *(j) Income taxes*

Income tax comprises current and deferred tax. Income tax is recognized in the statement of loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by Pilot Gold and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

#### *(k) Earnings or loss per share*

Earnings or loss per share is calculated by dividing the net earnings (loss) available to common shareholders by the weighted average number of Common Shares outstanding during the reporting period. The calculation of diluted earnings per share assumes that outstanding options and warrants are exercised and the proceeds are used to repurchase Common Shares at the average market price of the shares for the period. The effect is to increase the number of shares used to calculate diluted earnings per share relative to basic earnings per share and is only recognized when the effect is dilutive.

#### *(l) Financial instruments*

Financial assets and liabilities are recognized when Pilot Gold becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and Pilot Gold has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, Pilot Gold classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

- (i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of loss. Gains and losses arising from changes in fair value are presented in the statement of loss within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Consolidated Financial Statements**

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

- (ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Pilot Gold has classified certain of its long-term financial assets in this category.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income (loss). Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the statement of loss and included in other gains and losses.

- (iv) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Pilot Gold's loans and receivables are comprised of 'Receivables', 'Deposits' and 'Cash and cash equivalents', and are classified respectively as appropriate in current or non-current assets according to their nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.
- (v) Held to maturity: Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Pilot Gold's management has the positive intention and ability to hold to maturity. They are measured at amortized cost less any allowance for impairment. Amortization of premiums or discounts and losses due to impairment are included in current period loss. Pilot Gold's short term investments are in this category.
- (vi) Financial liabilities at amortized cost: Financial liabilities at amortized cost include account payables and accrued liabilities. Accounts payables and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payables are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

*(m) Impairment of financial assets*

At each reporting date, management of Pilot Gold assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, Pilot Gold recognizes an impairment loss, as follows:

- (i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.
- (ii) Available-for-sale financial assets: A significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

*(n) Share-based payments*

- (i) Stock Options: An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value of option grants is measured at the date of grant using the Black-Scholes option-pricing model ("Black-Scholes") and the compensation amount, equal to the option's fair value, is recognized over the period that the employees earn the options. The vesting periods of the stock options granted range from vesting immediately to vesting over a three-year period. Each tranche is recognised on a straight-line basis over the vesting period.

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**(An exploration stage company)**

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Pilot Gold recognizes an expense or addition to exploration properties and deferred exploration expenditures for options granted under the employee stock option plan, arising from stock options granted to employees using the fair value method with a corresponding increase in equity. The amount recognized as an expense or added to exploration properties and deferred exploration expenditures, is adjusted to reflect the number of options expected to vest.

- (ii) Deferred share units (“DSUs”) and restricted share units (“RSUs”) are measured at fair value on the grant date. Equity settled DSUs and RSUs are recognized in equity while DSUs and RSUs to be redeemed in cash are recognized as a liability and subsequently adjusted at each financial position reporting date for changes in fair value. The expense is recognized over the vesting period, with a corresponding charge as an expense or capitalized to deferred exploration expenditures.

**4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and expenses. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Further information on management’s judgments, estimates and assumptions and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

*Judgments*

In the process of applying the Company’s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements.

*i) Functional currency*

The functional currency for the parent entity, and each of its subsidiaries and associates, is the currency of the primary economic environment in which the entity operates. The US and Turkish subsidiaries of the parent entity, have a US dollar functional currency, while the parent entity itself, and its remaining subsidiaries, have a Canadian dollar functional currency. Determination of functional currency involves certain judgments to determine the primary economic environment and the parent entity reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment. The functional currency of Orta Truva was changed from Turkish Lira to US Dollar due to a change in the primary operating environment of the entity at the time controlling interest was acquired by the Company (Note 10a).

*ii) Review of asset carrying values and impairment assessment*

In accordance with the Company’s accounting policy, each asset is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is measured at the higher of value in use and fair value less costs to sell. The most significant assets assessed for impairment include the value of the Company’s investment interests in associates, the carrying value of its exploration property interests, deferred exploration expenditures and the carrying value of the earn-in option intangible asset.

*Exploration and evaluation expenditures*

The application of the Company’s accounting policy for exploration and evaluation expenditures requires judgment to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

Resource exploration is a speculative business and involves a high degree of risk. There is no certainty that the expenditures made by the Company in the exploration of its property interests will result in discoveries of commercial quantities of minerals. Exploration for mineral deposits involves risks which even a combination of professional evaluation and management experience may not eliminate. Significant expenditures are required to locate and estimate ore reserves, and further the development of a property.

## PILOT GOLD INC.

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#### 4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Capital expenditures to bring a property to a commercial production stage are also significant. There is no assurance the Company has, or will have, commercially viable ore bodies. There is no assurance that the Company will be able to arrange sufficient financing to bring ore bodies into production.

During the year ended December 31, 2015, the Company wrote down the value of deferred exploration expenditures relating to the Viper, Gold Bug and Drum exploration properties to \$nil, further to a prioritisation and review of the recoverability of the Company's portfolio of mineral property assets. There were no indicators of impairment on the Company's other assets.

##### *Investment in associates*

Recoverability of the carrying amount of Pilot Gold's interest in associates is dependent on successful development and commercial exploitation, or alternatively, sale of the respective assets. Changes in any of the assumptions used in the impairment assessment could materially affect the result of this analysis.

##### *iii) Deferred tax assets and liabilities*

The determination of the Company's tax expense for the period and deferred tax liabilities involves significant estimation by management. In determining these amounts, management makes estimates of the expected timing of the reversal of deferred tax assets and liabilities.

The Company provides for such differences, where known, based on management's best estimate of the probable outcome of these matters.

##### *Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

##### *i) Exploration and evaluation expenditures*

In addition to applying judgment to determine whether future economic benefits are likely to arise from the Company's exploration and evaluation assets or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves, the Company has to apply a number of estimates and assumptions. The publication of a resource pursuant to National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101"), is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified (i.e., measured, indicated or inferred). The estimates directly impact when the Company defers exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after expenditures are capitalised, information becomes available suggesting that the recovery of such expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

##### *ii) Deferred tax assets and liabilities*

The Company is subject to assessments by various taxation authorities, which may interpret legislation differently and judgement is required in determining the global tax provision.

#### 5. RECENT ACCOUNTING PRONOUNCEMENTS

New relevant IFRS pronouncements that have been issued but are not yet effective are listed below. We plan to apply the new standard or interpretation in the annual period for which it is first required. Pilot Gold is evaluating the impact these pronouncements are expected to have on its consolidated financial statements.

##### *Sale or contribution of assets between an investor and its associate*

IFRS 10, Consolidated Financial Statements ("IFRS 10") has been amended to address an inconsistency between IFRS 10 and IAS 28, Investments in Associates. The main consequence of the amendment is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain is recognized when the transaction involves assets that do not constitute a business. The amendment is effective for years beginning January 1, 2016.

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**5. RECENT ACCOUNTING PRONOUNCEMENTS (continued)**

*Presentation of financial statements*

IAS 1, Presentation of financial statement has been amended to clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. The amendment is effective for years beginning January 1, 2016.

*Interim financial reporting*

IAS 34, Interim financial reporting has been amended to i) clarify what is meant by “information disclosed elsewhere in the interim financial report” and (ii) require a cross reference to the location of that information.

*Financial instruments*

In July 2014 the IASB released the final version of IFRS 9, Financial Instruments (“IFRS 9”) covering classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 requires that all financial assets be classified and subsequently measured at amortized cost or at fair value based on a company’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions.

The new hedge accounting model will align hedge accounting with risk management activities undertaken by an entity. Components of financial and non - financial items will now be eligible for hedge accounting as long as the risk component can be identified and measured. The new hedge accounting model includes eligibility criteria that must be met but these criteria are based on an economic assessment of the strength of the hedging relationship, which can be determined using internal risk management data. New disclosure requirements relating to hedge accounting will be required and are meant to simplify existing disclosures. The IASB currently has a separate project on macro hedging activities and until that project is completed, entities are permitted to continue to apply IAS 39 for all of their hedge accounting.

On release of the final version, the IASB announced an updated mandatory effective date of January 1, 2018. Entities are still permitted to early adopt all or part of IFRS 9.

*Leases*

IFRS 16, Leases (“IFRS 16”) was issued January 13, 2016 and provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance. IFRS 16 is applicable to annual reporting periods beginning on or after January 1, 2019.

**6. RECEIVABLES AND PREPAYMENTS**

	<b>December 31, 2015</b>	December 31, 2014
Sales taxes receivable	\$ 516,752	\$ 98,738
Receivable from Orta Truva for expenditures on TV Tower	-	1,102,104
Other receivables	82,441	64,324
Prepayments	180,738	253,399
	<b>\$ 779,931</b>	<b>\$ 1,518,565</b>

Sales taxes receivable at December 31, 2015 include \$479,920 in Orta Truva; an additional \$1,128,963 is classified as non-current and is recoverable when production begins, or on sale of the licenses held by Orta Truva. Receivables from Orta Truva as at December 31, 2015 were eliminated on consolidation pursuant to the acquisition of a controlling interest in Orta Truva during 2015 (Note 10a)

**PILOT GOLD INC.**

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**7. 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. For accounting purposes, Pilot Gold has determined that any share purchase warrants held are derivative financial instruments that are held for sale and any change in fair value is included in income (loss) for the period. The fair value of share purchase warrants is measured using the Black-Scholes valuation model that uses inputs that are primarily based on market indicators. Any common shares (equities) held are designated as available-for-sale and any change in fair value is included in other comprehensive income (loss), until such time as the common shares are sold, impaired or otherwise disposed of at which time any gains or losses will be included in income (loss) for the period.

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 December 31, 2015, Pilot Gold holds Level 1 equity securities with a total fair value of \$309,406. As at December 31, 2014 the Company held only Level 1 equity securities with a total fair value of \$514,089.

The total amount in other comprehensive income relating to available for sale financial instruments as at December 31, 2015 is \$584,036 (as at December 31, 2014: \$578,558).

**8. DEPOSITS**

On August 1, 2012 Pilot Gold entered into a technical and administrative services agreement (the "Oxygen Agreement") with Oxygen Capital Corp. ("Oxygen"), a related party, whereby Oxygen provides geological, engineering, corporate development, administrative and shareholder communication services to the Company at cost. As at December 31, 2015 Oxygen holds an advance deposit of \$229,729 (December 31, 2014: \$274,085) on behalf of the Company, that on termination of the Oxygen Agreement will be applied against the final three months of services. See also related party transactions in Note 21. The deposit is adjusted biannually to reflect the most recent three months of invoices for services received from Oxygen.

The Company holds \$289,118 in Certificates of Deposit with a US bank, to back certain standby letters of credit, as well as a bond for \$748,822 with the United States Interior Department's Bureau of Land Management ("BLM") in order to meet bonding requirements with the BLM on its mineral properties in the USA. An additional \$140,800 is held with the General Directorate of Mining Affairs in order to meet bonding requirements on the TV Tower property.



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

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**9. PLANT AND EQUIPMENT**

	Field equipment	Equipment	Computer software	Furniture and fixtures	Leasehold improvements	Total
Cost:	\$	\$	\$	\$	\$	\$
Balance as at January 1, 2014	53,249	776,158	297,465	316,454	308,887	1,752,213
Additions	5,329	58,376	-	-	13,620	77,325
Disposals and write-downs	(2,768)	(73,187)	-	-	-	(75,955)
Cumulative translation adjustment	(266)	(18,643)	(10,687)	(15,415)	-	(45,011)
<b>Balance as at December 31, 2014</b>	<b>55,544</b>	<b>742,704</b>	<b>286,778</b>	<b>301,039</b>	<b>322,507</b>	<b>1,708,572</b>
Additions	56,770	9,924	2,070	3,333	-	72,097
Disposals and write-downs	-	(154,412)	-	(17,560)	-	(171,972)
Cumulative translation adjustment	(476)	(33,776)	(19,065)	(27,498)	-	(80,815)
<b>Balance as at December 31, 2015</b>	<b>111,838</b>	<b>564,440</b>	<b>269,783</b>	<b>259,314</b>	<b>322,507</b>	<b>1,527,882</b>
Depreciation:						
Balance as at January 1, 2014	20,996	484,795	265,583	195,693	231,041	1,198,108
Current period depreciation	6,696	74,515	22,538	23,827	54,542	182,118
Disposals and write-downs	-	(44,707)	-	-	-	(44,707)
Cumulative translation adjustment	(160)	(14,285)	(10,532)	(11,328)	-	(36,305)
<b>Balance as at December 31, 2014</b>	<b>27,532</b>	<b>500,318</b>	<b>277,589</b>	<b>208,192</b>	<b>285,583</b>	<b>1,299,214</b>
Current period depreciation	7,258	57,327	9,747	17,648	26,820	118,800
Disposals and write-downs	-	(130,708)	-	(13,592)	-	(144,300)
Cumulative translation adjustment	(449)	(27,674)	(19,065)	(21,502)	-	(68,690)
<b>Balance as at December 31, 2015</b>	<b>34,341</b>	<b>399,263</b>	<b>268,271</b>	<b>190,746</b>	<b>312,403</b>	<b>1,205,024</b>
Net Book Value:						
As at December 31, 2014	28,012	242,386	9,189	92,847	36,924	409,358
<b>As at December 31, 2015</b>	<b>77,497</b>	<b>165,177</b>	<b>1,512</b>	<b>68,568</b>	<b>10,104</b>	<b>322,858</b>

Equipment consists of automobiles, automotive equipment, and computer hardware.

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**10. 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 Halılađa are recorded in the Company's investment in Truva Bakır, an equity-accounted associate (Note 11). 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:

	Total January 1, 2014	Cadillac Acquisition (Note 10c)	Additions/ Allocations	Write-down or disposal of asset	Recovery from third party earn-in	Total December 31, 2014	TV Tower Acquisition (Note 10a)	Additions/ Allocations	Write-down of asset	Total December 31, 2015
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
<b>USA</b>										
Kinsley Mountain (Note 10b)	11,078,278	-	6,322,982	-	-	<b>17,401,260</b>	-	1,695,820	-	<b>19,097,080</b>
Goldstrike (Note 10c)	-	8,336,985	314,377	-	-	<b>8,651,362</b>	-	1,034,579	-	<b>9,685,941</b>
Portfolio Projects (Note 10d)	3,805,491	-	603,133	-	(79,570)	<b>4,329,054</b>	-	201,984	(2,091,328)	<b>2,439,710</b>
<b>Total USA</b>	<b>14,883,769</b>	<b>8,336,985</b>	<b>7,240,492</b>	<b>-</b>	<b>(79,570)</b>	<b>30,381,676</b>	<b>-</b>	<b>2,932,383</b>	<b>(2,091,328)</b>	<b>31,222,731</b>
<b>Turkey</b>										
TV Tower (Note 10a)	-	-	-	-	-	-	43,014,485	2,409,956	-	<b>45,424,441</b>
Arasanlı (Note 10e)	142,583	-	455	(143,038)	-	-	-	-	-	-
<b>Total Turkey</b>	<b>142,583</b>	<b>-</b>	<b>455</b>	<b>(143,038)</b>	<b>-</b>	<b>-</b>	<b>43,014,485</b>	<b>2,409,956</b>	<b>-</b>	<b>45,424,441</b>
<b>Total</b>	<b>15,026,352</b>	<b>8,336,985</b>	<b>7,240,947</b>	<b>(143,038)</b>	<b>(79,570)</b>	<b>30,381,676</b>	<b>43,014,485</b>	<b>5,342,339</b>	<b>(2,091,328)</b>	<b>76,647,172</b>

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**10. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)**a) *TV Tower, Turkey*

The Company previously held a 40% interest in Orta Truva, which was accounted for as an equity investment. On March 12, 2015, pursuant to having satisfied the following requirements (the “Earn-in Obligations”), the Company acquired an additional 20% interest in Orta Truva, such that the Company now holds a 60% interest in that entity:

- a) Incur \$21 million in eligible exploration expenditures (“Eligible Expenditures”); and
- b) Issue 6,555,000 Common Shares and 3,000,000 Common Share purchase warrants (“Teck Warrants”) to Teck Madencilik Sanayi Ticaret A.Ş (“TMST”) (Note 14).

Orta Truva is now a fully consolidated subsidiary. TMST, a subsidiary of Teck Resources Limited holds the remaining 40% non-controlling interest. Orta Truva holds the licenses that comprise TV Tower.

The transaction did not meet the definition of a business combination, and was therefore accounted for as an acquisition of an asset in exchange for assets surrendered. Accordingly, the acquisition has been recorded at cost, including transaction costs comprising primarily of legal fees of \$272,119.

Pursuant to the funding mechanism outlined in the TV Tower share-purchase and joint venture agreement, and in order to maintain the relative interests of TMST and the Company in Orta Truva until the Earn-in Obligations were satisfied, 60% of the Eligible Expenditures prior to satisfaction of the earn-in were advanced by the Company to TMST and accounted for as a component of the Earn-in Option, a non-current asset, and the remaining 40% was recorded to the Company’s interest in Orta Truva (Note 11).

The total carrying value of the Earn-in Option and the Company’s 40% equity interest in Orta Truva (the “OTM Consideration”) as at March 12, 2015 represented the total consideration exchanged for a 60% interest in Orta Truva. The OTM Consideration was allocated to the assets acquired based on relative fair values on a 60% basis, the remaining 40% was allocated to non-controlling interest. Net current payable at the time of acquisition includes \$1,609,422 of amounts payable to a subsidiary of the Company that was eliminated on consolidation.

<b>Assets acquired and liabilities assumed:</b>	
Cash	\$ 196,027
Reclamation deposit	157,360
Current sales tax receivable	884,482
Long term VAT receivable	976,898
Net current payables	(1,546,843)
TV Tower mineral property	43,014,485
	\$ 43,682,409
<b>Consideration paid:</b>	
Earn-in Option	17,628,283
Investment in Orta Truva	8,287,882
Transaction costs	272,119
Total value of 60% interest acquired	26,188,284
Non-controlling 40% interest	17,494,125
	\$ 43,682,409

The value of the non-controlling interest in Orta Truva has increased by \$1,746,933 during the period since the acquisition of the additional 20% interest to December 31, 2015, upon receipt of funding from the non-controlling interest holder, TMST.

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**10. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)***b) Kinsley Mountain, USA*

The Company holds a 79.1% interest in KG LLC (Note 15), the entity that holds the underlying lease and directly held claims that comprise the Kinsley Mountain property (together, "Kinsley").

The value of the non-controlling interest increased by \$487,711 during the year ended December 31, 2015 (year ended December 31, 2014: \$1,314,773) upon receipt of funding from the non-controlling interest holder, Intor Resources Corporation.

*c) Goldstrike, USA*

On August 29, 2014 the Company completed the acquisition of 100% of the issued and outstanding shares of Cadillac pursuant to a plan of arrangement for a total consideration of \$7,163,905 that consisted of the following (the "Cadillac Consideration"): (i) 4,218,164 Pilot Gold common shares ("Common Shares"); (ii) 4,218,164 of warrants to purchase a Common Share ("Warrants") for each common share of Cadillac held (Note 14c); transaction costs of \$562,920, cash advances of \$258,653, and the fair value of existing warrants to purchase Common Shares of Cadillac ("Cadillac Warrants") and Cadillac stock options acquired of \$48,747 ("Cadillac Options").

The transaction did not meet the definition of a business combination, and was therefore accounted for as an acquisition of an asset.

The Cadillac Consideration was allocated to the assets acquired based on relative fair values, with the exception of all financial assets and liabilities acquired, which were recorded at fair value on the date of acquisition. The presumption in IFRS 2, 'Share Based Payments', that the fair value of the assets acquired can be reliably measured, has been rebutted and it has been determined that the fair value of the equity instruments granted in an arm's length transaction is the measure of the fair value of the assets received:

**Assets acquired and liabilities assumed:**

Cash	\$	53,343
Available for sale investments		17,960
Reclamation deposit		13,740
Goldstrike mineral property		8,336,985
Net current liabilities		(1,250,123)
Asset retirement obligation		(8,000)
	<b>\$</b>	<b>7,163,905</b>

*d) Portfolio Project, USA*

*Gold Bug* - The Company elected not to satisfy commitments under the underlying property lease agreement on July 13, 2015. The carrying value of the Gold Bug exploration property was consequently written down by \$740,147 to \$nil.

*Viper* - On September 24, 2015 the United States Bureau of Land Management ("BLM") issued Land Use Plan Amendments severely restricting surface occupancy and use of areas inhabited by the Greater Sage Grouse, a protected species of bird, in several states including Nevada. Although the area including and immediately surrounding the Viper exploration property is exempt from these new restrictions on the basis of the bulk tonnage style gold discovery made by the Company in 2011, management has determined that the restrictions have made the recoverability of the deferred costs attributed to the Viper property unlikely, and the carrying value of the property was consequently written down by \$1,050,445 to \$nil as at December 31, 2015. The Company's other properties in Nevada remain unaffected.

*Drum* - The Company elected not to satisfy commitments under the underlying property lease agreement. The carrying value of the Drum exploration property was consequently written down by \$300,736 to \$nil as at December 31, 2015.

*e) Arasanli, Turkey*

The Arasanli property was written down by \$143,038 to \$nil during the year ended December 31, 2014 as a result of a review of recoverability of the portfolio of exploration and development assets.

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**11. INVESTMENT IN ASSOCIATES***Turkey*

Pilot Gold owns 40% of Halilağa through a 40% ownership stake in Truva Bakır Maden İşletmeleri A.Ş. ("Truva Bakır"), a Turkish company that is controlled (60%) by TMST. Pilot Gold now holds a 60% interest in Orta Truva after acquiring a further 20% interest on March 12, 2015 (Note 10a).

Truva Bakır is private, and as such fair values of the Company's investment is not determinable through an active market.

Funding to Orta Truva for the year ended December 31, 2014 and through to March 12, 2015 (Note 10a), the date the Company acquired control, includes 40% of Eligible Expenditures incurred.

	<b>Truva Bakır</b>	<b>Orta Truva</b>	<b>Total</b>
At December 31, 2013	\$ 6,278,213	\$ 8,680,003	\$ 14,958,216
Share of loss	3,384	(66,522)	(63,138)
Funding by the Company	195,907	1,324,465	1,520,372
Foreign exchange differences	(539,941)	(792,443)	(1,332,384)
<b>At December 31, 2014</b>	<b>\$ 5,937,563</b>	<b>\$ 9,145,503</b>	<b>\$ 15,083,066</b>
Share of loss	(52,675)	(10,670)	(63,345)
Funding by the Company	300,999	4,175	305,174
Foreign exchange differences	(965,160)	(851,126)	(1,816,286)
Acquisition of controlling interest (Note 10a)	-	(8,287,882)	(8,287,882)
<b>At December 31, 2015</b>	<b>\$ 5,220,727</b>	<b>\$ -</b>	<b>\$ 5,220,727</b>

The summarised financial information as at December 31, 2015 for Truva Bakır on a 100% basis is as follows:

	<b>Truva Bakır</b>
Current assets	\$ 452,859
Non-current assets	12,718,499
Current liabilities	(119,540)
<b>Total net assets</b>	<b>\$ 13,051,818</b>
% interest held	40%
<b>Company's share of net assets</b>	<b>\$ 5,220,727</b>
Loss	(131,687)
% interest held	40%
<b>Company's share of loss</b>	<b>\$ (52,675)</b>

As at December 31, 2015, the Company has outstanding receivables from Truva Bakır of \$39,033 that has been collected subsequent to period end.

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

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

**12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

	<b>December 31, 2015</b>	December 31, 2014
Trade payables	\$ 266,870	\$ 650,851
Other payables	56,018	119,306
Accrued liabilities	144,240	765,971
Amounts due to Orta Truva	-	22,511
Amounts due to Truva Bakir	-	28,395
Amounts due to TMST	-	33,765
Decommissioning liability - current	10,000	-
	<b>\$ 477,128</b>	<b>\$ 1,620,799</b>

Accounts payable and accrued liabilities are non-interest bearing and are normally settled on 30-day terms. Amounts due to associates and TMST, relate to cash calls due in connection with the Company's pro-rata share of costs incurred at Halilağa and TV Tower. Cash calls are non-interest bearing and are normally settled on 10-day terms. Accrued liabilities in the comparative year include amounts payable to employees and service providers of the Company in respect of that year's bonus amount.

**13. INCOME TAXES**

## a) Provision for income taxes:

The recovery of income taxes differs from the amount that would have resulted from applying combined Canadian federal and provincial statutory tax rates for 2015 of 26.00% (2014 – 26.00%).

	<b>December 31, 2015</b>	December 31, 2014
Loss before taxes	\$ (6,927,432)	\$ (6,709,098)
Statutory tax rate	26.00%	26.00%
Expected income tax recovery	(1,801,132)	(1,744,365)
Permanent differences	2,116,734	1,092,559
Benefit not recognized and other	159,221	651,806
Income tax expense (recovery)	<b>\$ 474,823</b>	<b>\$ -</b>

b) A deferred tax liability of \$474,823 has been recognised in the period ended December 31, 2015 (December 31, 2014: \$nil) arising from foreign exchange differences in the tax basis of the TV Tower mineral property held by Orta Truva.

c) The following are temporary differences the net benefits of which have not been recognized as at December 31, 2015:

	<b>December 31, 2015</b>	December 31, 2014
Operating losses carried forward	\$ 29,418,277	\$ 26,098,665
Equipment	569,578	580,292
Mineral properties	(3,222,761)	286,149
Investments and other	2,510,232	3,666,327
Total temporary differences	<b>\$ 29,275,326</b>	<b>\$ 30,631,433</b>

**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Consolidated Financial Statements**

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

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**13. INCOME TAXES (continued)**

- d) The Company has non capital losses which may be applied to reduce future taxable income. These losses expire between 2016 and 2035:

Canada	US	Turkey	Total
\$13,893,000	\$13,692,000	\$1,832,000	<b>\$29,417,000</b>

There are no income taxes owed by Pilot Gold as at December 31, 2015.

**14. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

*a) Authorized*

Unlimited Common Shares with no par value.

*b) Issued*

On April 2, 2014, the Company completed a bought deal financing for aggregate gross proceeds of C\$20,000,160 (\$18,130,145). A syndicate of underwriters purchased, on a bought deal basis, 13,072,000 Common Shares at a price of C\$1.53 per Common Share.

On August 29, 2014 the Company completed the acquisition of Cadillac (Note 10c), pursuant to which a total of 4,218,164 Common Shares with a fair value of C\$5,483,613 (\$5,050,408), were issued as partial consideration to the shareholders of Cadillac.

See Note 22 for Common Shares issued subsequent to year end.

*c) Stock-based compensation*

For the year ended December 31, 2015, the Company has capitalized a total of \$179,505 (December 31, 2014 - \$217,825) of stock-based compensation to exploration properties and deferred exploration expenditures. For the year ended December 31, 2015, the Company charged a total of \$1,028,821 (2014: \$1,521,124) of stock-based compensation expense to the statement of loss relating to stock-based compensation of which \$40,357 (2014: \$84,505) is attributed to property investigation and technical studies.

*Pilot Gold Stock Option Plan*

The Pilot Gold Stock Option Plan (2015) (the "Option Plan"), was approved on May 12, 2015. Under the terms of the Option Plan, the Board may, from time to time, grant to employees, officers and directors of, or consultants to the Company, non-assignable options to acquire Common Shares ("Options") in such numbers and for such terms as may be determined by the Board.

The number of Common Shares which may be issued pursuant to Options previously granted and those granted under the Option Plan will be a maximum of 10% of the issued and outstanding Common Shares at the time of the grant; the number of Common Shares which may be reserved for issuance to any one individual may not exceed 5% of the issued shares on a yearly basis.

Options granted under the Option Plan to date are exercisable over period of five years. In accordance with the Option Plan, the exercise price of each Option shall under no circumstances be lower than the closing market price of the Company's stock on the trading day immediately before the date of grant. 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.

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

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

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

Option transactions and the number of Options outstanding are summarized as follows. No Options expired in the period. See Note 22 for stock based compensation granted subsequent to year end.

	Shares	Weighted Average Exercise Price
	#	C\$
Balance, January 1, 2014	<b>6,920,000</b>	<b>2.60</b>
Options granted	2,555,000	1.13
Options forfeited	(585,000)	2.50
Options exercised	(5,000)	1.08
<b>Balance, December 31, 2014</b>	<b>8,885,000</b>	<b>2.18</b>
Options granted	997,000	1.11
Options forfeited or cancelled	(2,956,667)	3.31
Options exercised	-	-
<b>Balance, December 31, 2015</b>	<b>6,925,333</b>	<b>1.55</b>

At December 31, 2015, 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	290,000	3.28	0.81	83,333	0.88
C\$1.00 to C\$1.99	4,490,333	2.83	1.15	2,437,222	1.14
C\$2.00 to C\$2.99	1,545,000	1.69	2.13	1,171,667	2.13
C\$3.00 to C\$3.99	600,000	0.55	3.45	600,000	3.45
	<b>6,925,333</b>	<b>2.40</b>	<b>1.55</b>	<b>4,292,222</b>	<b>1.73</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\$0.63 per Option. The weighted average significant inputs into the model were share price of C\$1.11 at the grant date, exercise price of C\$1.11, volatility of 70%, dividend yield of 0%, an expected Option life of 5 years, and an annual risk-free interest rate of 0.65%. A 3.7% forfeiture rate is applied to the Option expense.

*Cadillac Acquisition Stock Option Plan*

Pursuant to the acquisition of Cadillac Mining Corporation during the year ended December 31, 2014, and as adjusted for the transaction exchange ratio of 0.12195, the Company assumed 67,072 Cadillac Options each of which is exercisable for a Common Share. Of these, 12,195 expired during the year ended December 31, 2014.



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

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

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

Cadillac Options as for the year ended December 31, 2015 are summarised as follows:

	Shares	Weighted Average Exercise Price
	#	C\$
Balance, December 31, 2014	54,877	0.59
Options exercised	(48,780)	0.41
Options expired	(6,097)	2.05
<b>Balance, December 31, 2015</b>	-	-

*Restricted Share Units and Deferred Share Units*

On February 3, 2015, the Company granted under the terms of the Pilot Gold Deferred Share Unit Plan (2014), 315,000 Deferred Share Units ("DSUs") to directors of the Company, each with a fair value of \$1.14. 60,000 DSUs were exercised on August 7, 2015.

On February 3, 2015, the Company granted 406,910 Restricted Share Units ("RSUs") under the Pilot Gold RSU plan (2014) to employees and service providers of the Company each with a fair value of \$1.14 and an expiry date of December 31, 2018.

The expense related to the DSUs and RSUs is recorded in the consolidated statement of comprehensive loss in share-based compensation and credited to equity under Contributed Surplus since the payment in cash or Common Shares is at the option of the Company.

*d) Warrants:*

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

	Number of Warrants	Weighted Average Exercise Price
	#	C\$
Balance, January 1, 2014	14,362,524	2.37
Warrants issued (Note 10c)	4,218,164	2.00
Warrants expired	(11,362,524)	2.20
Warrants exercised	-	-
Balance, December 31, 2014	<b>7,218,164</b>	<b>2.42</b>
Teck Warrants expired	(3,000,000)	3.00
Warrants exercised	(7)	2.00
<b>Balance, December 31, 2015</b>	<b>4,218,157</b>	<b>2.00</b>

Warrants outstanding as at December 31, 2015 have a remaining contractual life of 0.92 years

*Cadillac Warrants:*

Pursuant to the acquisition of Cadillac (Note 10c) and as adjusted for the transaction ratio of 0.12195, the Company assumed 135,962 Cadillac Warrants each of which were exercisable for a Common Share. The exercise price of the Cadillac Warrants was C\$1.64, and each expired on November 15, 2014. There were no forfeitures or exercises during this period.

See Note 22 for details of Warrants issued after year end.

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

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

**15. 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 13).

## a) Summarised Balance Sheet

	KG LLC		Orta Truva
	As at December 31,		As at December 31,
	2015	2014	2015
Current			
Assets	\$ 248,793	\$ 136,611	\$ 1,606,396
Liabilities	(26,144)	(476,146)	(914,081)
<b>Total Current net assets</b>	<b>222,649</b>	<b>(339,535)</b>	<b>692,315</b>
Non-Current			
Assets	20,303,891	18,482,243	23,171,223
Liabilities	(52,800)	(51,600)	(474,823)
<b>Total Non-current net assets</b>	<b>20,251,091</b>	<b>18,430,643</b>	<b>22,696,400</b>
<b>Net Assets</b>	<b>\$ 20,473,740</b>	<b>\$ 18,091,108</b>	<b>\$ 23,388,715</b>

## b) Summarised Statement of Loss

	KG LLC		Orta Truva
	Year ended December 31,	2014	Period from March 12 to December 31, 2015
	2015		
Statement of Loss	\$ 10,210	\$ -	\$ 1,062,862
Other comprehensive Loss	-	-	-
<b>Loss and other comprehensive Loss</b>	<b>\$ 10,210</b>	<b>\$ -</b>	<b>\$ 1,062,862</b>

## c) Summarised cash flows

	Kinsley		Orta Truva
	Year ended December 31,	2014	Period March 12 to December 31, 2015
	2015		
Net cash flow from:			
operating activities	\$ (10,210)	\$ (652)	\$ (83,691)
financing activities	2,109,168	4,775,052	3,828,421
investing activities	(1,970,087)	(4,683,533)	(2,636,634)
<b>Net increase in cash</b>	<b>128,871</b>	<b>90,867</b>	<b>1,108,096</b>
Cash at the beginning of the period	118,543	27,675	-
<b>Cash at the end of the period</b>	<b>\$ 247,414</b>	<b>\$ 118,542</b>	<b>\$ 1,108,096</b>

See Note 10 for transactions with non-controlling interests.

**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Consolidated Financial Statements**

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

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**16. CAPITAL DISCLOSURES**

Pilot Gold considers the items included in the consolidated statement of shareholders' equity as capital. Management of the Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

Pilot Gold's objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

**17. FINANCIAL RISK MANAGEMENT**

*Financial Risk Management*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes, inclusive of documented treasury policies, counterparty limits, and controlling and reporting structures.

The type of risk exposure and the way in which such exposure is managed is provided as follows:

*Credit Risk*

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Pilot Gold's credit risk is primarily attributable to its liquid financial assets. The Company limits exposure to credit risk and liquid financial assets through maintaining its cash and short term investments with high credit quality banking institutions in Canada, the USA and Turkey. The Company mitigates credit risk on these financial instruments by adhering to its investment policy that outlines credit risk parameters and concentration limits.

*Liquidity Risk*

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. The Company manages its capital in order to meet short term business requirements, after taking into account cash flows from operations, expected capital expenditures and the Company's holdings of cash and cash equivalents. The Company may from time to time have to issue additional Common Shares to ensure there is sufficient capital to meet long term objectives. The Company's financial liabilities of accounts payable and accrued liabilities are payable within a 90 day period and are expected to be funded from the cash held.

*Interest Rate Risk*

We are subject to interest rate risk with respect to our investments in cash and short term investments. Our current policy is to invest cash at floating rates of interest and cash reserves are to be maintained in cash and cash equivalents in order to maintain liquidity, while achieving a satisfactory return for shareholders. Fluctuations in interest rates when cash and cash equivalents mature impact interest income earned.

*Market Risk*

The significant market risk to which the Company is exposed is foreign exchange risk.

*Foreign Exchange Risk*

The results of the Company's operations are exposed to currency fluctuations. To date, the Company has raised funds entirely in Canadian dollars. The majority of the Company's mineral property expenditures, including the cash calls from the Company's 40% partner at Orta Truva and 60% partner at Truva Bakir, are incurred in United States dollars. The fluctuation of the CAD and the TRY in relation to the United States dollar will consequently have an impact upon the financial results of the Company.

Further, although only a portion of the Company's expenditures, primarily general and administrative costs are incurred in Canadian dollars, the Company records its assets located in Vancouver in Canadian dollars. As the operating results and financial position of the Company are reported in United States dollars in Pilot Gold's consolidated financial statements, there may also be an impact to the reported value of the Company's assets, liabilities and shareholders' equity as a result of the fluctuation of the CAD in relation to the United States dollar. A 1% increase or decrease in the exchange rate of the US dollar against the Canadian dollar would result in a \$38,579 increase or decrease respectively,

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

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**17. FINANCIAL RISK MANAGEMENT (continued)**

in the Company's cash and short term investment balance. The Company has not entered into any derivative contracts to manage foreign exchange risk at this time.

*Fair Value Estimation*

The carrying value of the Company's financial assets and liabilities approximates their estimated fair value.

**18. 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 year ended December 31, 2015 is \$202,201 (2014: \$229,762) with an additional \$50,994 (2014: \$52,673) in contingent rental expenditures which consist of operating costs.

Total future minimum lease payments, under non-cancellable operating leases as at December 31, 2015 are as follows:

Year	
2016	\$ 222,174
2017	216,853
2018	135,998
2019	123,833
2020+	484,802
	\$ 1,183,660

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.

**19. SEGMENT INFORMATION**

The Company's operations are in one segment, the exploration for gold, copper and other precious and base metals. At December 31, 2015 and 2014 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 10 and 11. The net loss is distributed by geographic segment per the table below:

	Year ended December 31,	
	2015	2014
Canada	\$ 3,694,849	\$ 5,591,447
USA	2,828,705	1,102,761
Turkey	878,701	14,890
	\$ 7,402,255	\$ 6,709,098

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

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**19. SEGMENT INFORMATION (continued)**

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

	<b>Year ended December 31,</b>	
	<b>2015</b>	<b>2014</b>
Canada	\$ 108,603	\$ 85,027
USA	166,500	268,562
Turkey	47,755	55,769
	<b>\$ 322,858</b>	<b>\$ 409,358</b>

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

**20. SUPPLEMENTAL CASH FLOW INFORMATION**

Non-cash financing and investing transactions:

	<b>December 31, 2015</b>	December 31, 2014
Non-cash financing and investing transactions		
Issuance of Common Shares and Warrants in partial consideration in mineral property acquisition	\$ -	\$ (6,342,332)
Non-cash recovery on mineral properties	-	79,570
Change in fair value of financial instruments recognised in OCI	5,478	575,538
Reclassification of losses from OCI into statement of loss	-	22,655
Stock based compensation within deferred exploration expenditures (Note 14)	(179,505)	(217,825)
	<b>\$ (174,027)</b>	<b>\$ (5,882,394)</b>

**21. 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 11.

*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 \$772,501 in expenditures, reflected in the Company's consolidated statement of loss and comprehensive loss and statement of financial position. As at December 31, 2015, Oxygen holds a refundable deposit of \$229,729 on behalf of the Company. Additionally, as at December 31, 2015 the Company held a payable to Oxygen of \$107,319. Amounts payable were settled subsequent to December 31, 2015. See also Note 18 for details on commitments related to lease arrangements.

**PILOT GOLD INC.**

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**Notes to the Consolidated Financial Statements**

Year ended December 31, 2015

(Expressed in United States Dollars, unless otherwise noted)

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**21. RELATED PARTY TRANSACTIONS (continued)**

*Compensation of key management personnel*

Key management includes members of the Board, the President and Chief Executive Officer, the VP Exploration, the Chief Financial Officer & Corporate Secretary, and the Country Managers. The aggregate total compensation paid, or payable to key management for employee services directly or via Oxygen is shown below:

	<b>December 31, 2015</b>	December 31, 2014
Salaries and other short-term employee benefits	\$ 1,343,795	\$ 1,049,396
Share-based payments	548,581	850,810
<b>Total</b>	<b>\$ 1,892,376</b>	<b>\$ 1,900,206</b>

**22. SUBSEQUENT EVENTS**

*Private placement*

On March 4, 2016, the Company completed a non-brokered private placement for a total of C\$4,473,250 (the "Private Placement"). Under the Private Placement, a total of 17,893,000 units of 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.

*Stock Based Compensation*

On March 17, 2016, the Company granted 4,482,500 Options, 153,000 DSUs and 125,000 RSUs to directors, employees and service providers of the Company. The Options have an exercise price of C\$0.52. Employee Options vest in thirds over three years and expire after 5 years. The fair value of the DSUs and RSUs was \$0.49.