Pilotgold

An exploration stage company

Consolidated Financial Statements

(Expressed in US Dollars)
Year ended December 31, 2016

March 28, 2017

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, 2016 and December 31, 2015 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.

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806

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, 2016 and December 31, 2015 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, 2016	2015
	$	$
Assets		
Current assets		
Cash and cash equivalents	12,374,010	7,811,674
Short term investments	94,881	100,743
Receivables and prepayments (Note 6)	827,589	779,931
Total current assets	13,296,480	8,692,348
Non-current assets		
Other financial assets (Note 7)	616,688	309,406
Deposits (Note 8)	325,752	1,408,469
Sales taxes receivable (Note 6)	938,858	1,128,963
Plant and equipment (Note 9)	270,245	322,858
Exploration properties and deferred exploration expenditures (Note 10)	83,677,276	76,647,172
Investment in associates (Note 11)	5,421,177	5,220,727
Total non-current assets	91,249,996	85,037,595
Total assets	104,546,476	93,729,943
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and accrued liabilities (Note 12)	897,297	477,128
Total current liabilities	897,297	477,128
Non-current liabilities		
Deferred tax liabilities (Note 13)	1,157,116	474,823
Other liabilities	84,770	129,536
Total non-current liabilities	1,241,886	604,359
Shareholders' equity		
Share capital (Note 14)	166,756,042	155,186,833
Warrants issued (Note 14)	8,364,686	6,352,365
Contributed surplus (Note 14)	14,953,822	13,857,138
Accumulated other comprehensive loss	(13,256,429)	(13,938,032)
Accumulated deficit	(97,426,019)	(91,849,189)
Total shareholders' equity	79,392,102	69,609,115
Non controlling interest (Note 15)	23,015,191	23,039,341
Total liabilities and shareholders' equity	104,546,476	93,729,943

The notes on pages 5 to 26 are an integral part of these consolidated financial statements.

These financial statements are approved by the board and authorised for issue on March 28, 2017:

"*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,	
	2016	2015
	$	$
Operating expenses		
Wages and benefits	1,793,587	1,720,622
Office and general	1,171,522	1,144,857
Stock based compensation (Note 14)	1,012,596	988,468
Professional fees	445,325	448,903
Property investigation and technical studies	332,076	335,390
Investor relations, promotion and advertising	271,411	296,730
Depreciation	76,700	118,800
Listing and filing fees	66,322	51,508
Write down of deferred exploration expenditures (Note 10)	-	2,091,327
Loss from operations	5,169,539	7,196,605
Other income (expenses)		
Foreign exchange gains (losses)	(537,701)	224,486
Change in fair value and impairment of financial instruments	(188,897)	(153,663)
Loss from associates (Note 11)	(13,484)	(63,345)
Finance income	53,327	167,776
Net gain on sale of financial instruments (Note 7)	242,747	-
Other net income (Note 10b)	300,480	93,919
	(143,528)	269,173
Loss before tax	5,313,067	6,927,432
Income tax expense (Note 13)	682,293	474,823
Loss for the period	5,995,360	7,402,255
Loss attributable to:		
Shareholders	5,576,830	6,974,976
Non-controlling interests	418,530	427,279
	5,995,360	7,402,255
Other comprehensive income (loss)		
Items that may be reclassified subsequently to net income		
Exchange differences on translations	500,623	(6,020,183)
Net fair value gain on financial assets	259,353	5,478
Amounts reclassifed into net loss on impairment or sale of financial assets	(78,373)	-
Other comprehensive income (loss) for the period, net of tax	681,603	(6,014,705)
Total loss and comprehensive loss for the period	5,313,757	13,416,960
Loss attributable to:		
Shareholders	4,895,227	12,989,681
Non-controlling interests	418,530	427,279
Total loss and comprehensive loss for the period	5,313,757	13,416,960
Loss per share		
Basic and diluted loss per share	$ 0.04	$ 0.07
Weighted average number of Common Shares		
Basic and diluted	125,474,133	107,306,277

The notes on pages 5 to 26 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	Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity	Non-controlling interest	Total equity
	#	$	$	$	$	$	$	$	$
Balance as at January 1, 2015	107,235,497	155,081,135	6,352,365	12,736,332	(7,923,327)	(84,874,213)	81,372,292	3,737,851	85,110,143
Option and DSU exercises	108,787	105,698	-	(87,519)	-	-	18,179	-	18,179
Stock based compensation	-	-	-	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	-	-	-	-	-	-	-	17,494,125	17,494,125
Contributions by non-controlling interests	-	-	-	-	-	-	-	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	6,352,365	13,857,138	(13,938,032)	(91,849,189)	69,609,115	23,039,341	92,648,456
Private placements (Note 14)	41,928,000	12,060,794	2,042,661	-	-	-	14,103,455	-	14,103,455
Share issue costs on private placements	-	(894,883)	-	-	-	-	(894,883)	-	(894,883)
Share issuances towards mineral property acquisitions and lease payments	359,641	191,600	-	-	-	-	191,600	-	191,600
Option, RSU and Warrant exercises (Note 14)	389,853	211,698	(30,340)	(115,363)	-	-	65,995	-	65,995
Stock based compensation (Note 14)	-	-	-	1,212,047	-	-	1,212,047	-	1,212,047
Cumulative other comprehensive income reclassified to the statement of loss on sale or impairment	-	-	-	-	(78,373)	-	(78,373)	-	(78,373)
Unrealized gain on long-term investments	-	-	-	-	259,353	-	259,353	-	259,353
Contributions by non-controlling interest (Note 10a and d)	-	-	-	-	-	-	-	394,380	394,380
Cumulative translation adjustment	-	-	-	-	500,623	-	500,623	-	500,623
Net loss for the period	-	-	-	-	-	(5,576,830)	(5,576,830)	(418,530)	(5,995,360)
Balance as at December 31, 2016	150,021,778	166,756,042	8,364,686	14,953,822	(13,256,429)	(97,426,019)	79,392,102	23,015,191	102,407,293

The notes on pages 5 to 26 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, 2016	2015
	$	$
Cash flows from operating activities		
Loss for the period	(5,995,360)	(7,402,255)
Adjusted for:		
Stock based compensation	1,057,829	1,028,821
Write-down of deferred exploration expenditures (Note 10b)	-	2,091,327
Change in fair value and impairment of financial instruments	(53,850)	153,663
Deferred Tax expense	682,293	474,823
Other non-cash items on the statement of loss	55,068	142,961
Interest income on short term investments	-	(62,319)
Value of shares received from Logan (Note 10b)	(142,527)	-
Foreign exchange not related to cash	572,873	(34,274)
Amount refunded from Oxygen Deposit (Note 8)	116,525	-
Movements in working capital:		
Accounts receivable and prepayments	(1,693)	(2,166)
Accounts payable and other liabilities	189,064	(250,239)
Net cash outflow due to operating activities	(3,519,778)	(3,859,658)
Cash flows from financing activities		
Cash received from financing	14,103,455	-
Share issue costs	(894,883)	-
Cash received from exercise of share based payments and warrants	65,995	18,167
Contributions from non-controlling interest	394,381	2,187,813
Net cash inflow from financing activities	13,668,948	2,205,980
Cash flows from investing activities		
Change in working capital attributable to deferred exploration expenditures	289,779	(863,412)
Sale of equity investments	282,430	-
Maturity of short term investments	7,555	3,622,759
Purchase of reclamation deposits	(95,460)	(28,900)
Release of reclamation deposits (Note 8)	949,693	-
Surety bond collateral (Note 8)	(145,109)	-
Purchase and proceeds of sale of property and equipment	(26,435)	(56,958)
Funding to Associates (Note 11)	(54,830)	(379,780)
Acquisition of mineral property (Note 10c)	(800,000)	-
Interest in exploration properties and deferred exploration expenditures	(6,263,320)	(5,080,402)
Recovery of tenure maintenace cost pursuant to Option Agreement (Note 10b)	130,962	-
Net sales tax recovery	-	585,997
Cash acquired with acquisition of controlling interest in Orta Truva	-	196,078
Expenditures towards TV-Tower prior to Earn-in	-	(259,322)
Expenditures towards Earn-in Option	-	(33,765)
Net cash outflow due to investing activities	(5,724,735)	(2,297,705)
Effect of foreign exchange rates	137,901	(2,079,052)
Net decrease in cash and cash equivalents	4,562,336	(6,030,435)
Cash and cash equivalents at beginning of period	7,811,674	13,842,109
Cash and cash equivalents at end of the period	12,374,010	7,811,674

See Note 20 for supplemental cash flow information

(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. Pilot Gold 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, 2016 were as follows:

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

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 incurs 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 90 days or less.

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. Exploration expenditures include allocated wages benefits and stock based compensation expense. 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. In the case where the property has been written-down to $nil, receipts under option agreements are recorded in other income.

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, 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.

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.

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 to purchase Common Shares ("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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The vesting periods of the 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.

Pilot Gold recognizes an expense or addition to exploration properties and deferred exploration expenditures for options granted under the Pilot Gold Stock Option Plan (2014) (the "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. 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 in 2015 (Note 10d).

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, and deferred exploration expenditures. Indications of impairments for these assets include judgement on whether exploration and exploration rights will continue to be funded and if the projects are commercially viable.

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.

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.

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

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 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.

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.

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. This determination is made at initial recognition. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in net earnings, unless this creates an accounting mismatch. Preliminary internal discussions have begun, but the full impact of the pronouncement has yet to be assessed.

(Expressed in United States Dollars, unless otherwise noted)

5. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

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. Preliminary internal discussions have begun, but the full impact of the pronouncement has yet to be assessed.

6. RECEIVABLES AND PREPAYMENTS

	As at December 31,	
	2016	**2015**
Sales taxes receivable	$ 527,580	$ 516,752
Other receivables	202,641	82,441
Prepayments	97,368	180,738
	$ 827,589	**$ 779,931**

Sales taxes receivable at December 31, 2016 include $502,952 in Orta Truva that were received on January 5, 2017; an additional $938,858 is classified as non-current and is recoverable when production begins, or on sale of the licenses held by Orta Truva (December 31, 2015: $479,920 and $1,128,963, respectively). Other receivables include $183,967 in reclamation bonds recoverable following their replacement under a surety program (Note 8).

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, 2016, Pilot Gold holds Level 1 equity securities with a total fair value of $616,688 (December 31, 2015: $309,406). Certain Level 1 securities were sold during the period for total proceeds of $282,430. The balance of other financial assets includes the receipt of common shares in Logan Resources Ltd ("Logan") during the period, (see Note 10b).

The total amount in other comprehensive income relating to available for sale financial instruments as at December 31, 2016 is $765,016 (as at December 31, 2015: $584,036).

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 administrative and accounting services to the Company at cost. As at December 31, 2016 Oxygen holds an advance of $121,945 (December 31, 2015: $229,729) on behalf of the Company, that on termination of the Oxygen Agreement will be applied against the final three months of services. The amount held by Oxygen is reviewed biannually and adjusted to reflect an estimate of costs over three months. During the year ended December 31, 2016, the Company received a refund of $116,525 as a result of the biannual review (Note 21).

During the year ended December 31, 2016, the Company established a surety bonding arrangement with a third-party (the "Surety"). As a consequence of the Surety, $384,838 previously held as certificates of deposit with a US bank to back standby letters of credit, and $748,822 held directly by the United States Department of the Interior in order to satisfy bonding requirements were replaced. Accordingly, during the year ended December 31, 2016, the Company recovered $949,693 in bonding, and a further $183,967 was recovered subsequent to year end (Note 6). To satisfy the Surety, the Company has deposited $145,109 as a collateralized balance in favour of the Surety company. A finance fee is charged monthly on the full balance of the Surety amount.

An additional $59,092 is held with the Turkish General Directorate of Mining Affairs (at December 31, 2015: $140,800), in order to meet bonding requirements on the TV Tower property. A total of $81,708 was refunded during the year.

(Expressed in United States Dollars, unless otherwise noted)

9. PLANT AND EQUIPMENT

	Field equipment	Equipment	Computer software	Furniture and fixtures	Leasehold improvements	Total
Cost:	$	$	$	$	$	$
Balance as at January 1, 2015	55,544	742,704	286,778	301,039	322,507	1,708,572
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)
Balance as at December 31, 2015	111,838	564,440	269,783	259,314	322,507	1,527,882
Additions	8,500	17,605	-	353	-	26,458
Disposals and write-downs	(2,685)	(9,019)	-	(5,501)	-	(17,205)
Cumulative translation adjustment	1,828	3,260	3,048	4,393	-	12,529
Balance as at December 31, 2016	**119,481**	**576,286**	**272,831**	**258,559**	**322,507**	**1,549,664**
Depreciation:						
Balance as at January 1, 2015	27,532	500,318	277,589	208,192	285,583	1,299,214
Depreciation charge	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)
Balance as at December 31, 2015	34,341	399,263	268,271	190,746	312,403	1,205,024
Depreciation charge	16,656	43,261	1,035	13,305	3,292	77,549
Disposals and write-downs	(1,670)	(7,723)	-	(3,440)	-	(12,833)
Cumulative translation adjustment	(65)	3,221	3,048	3,475	-	9,679
Balance as at December 31, 2016	**49,262**	**438,022**	**272,354**	**204,086**	**315,695**	**1,279,419**
Net Book Value:						
As at December 31, 2015	77,497	165,177	1,512	68,568	10,104	322,858
As at December 31, 2016	**70,219**	**138,264**	**477**	**54,473**	**6,812**	**270,245**

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

(Expressed in United States Dollars, unless otherwise noted)

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 in the exploration stage. Expenditures at Halilağa 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, 2015	TV Tower Acquisition	Additions/ Allocations	Write-down	**Total December 31, 2015**	Acquisition Costs	Additions/ Allocations	Recovery from third party earn-in	**Total December 31, 2016**
	$	$	$	$	**$**	$	$	$	**$**
USA									
Kinsley Mountain (Note 10a)	17,401,260	-	1,695,820	-	**19,097,080**	-	689,053	-	**19,786,133**
Goldstrike	8,651,362	-	1,034,579	-	**9,685,941**	-	4,592,614	-	**14,278,555**
Black Pine (Note 10b)	-	-	-	-	**-**	1,010,926	154,568	-	**1,165,494**
Portfolio Projects (Note 10c)	4,329,054	-	201,984	(2,091,328)	**2,439,710**	-	63,502	(369,322)	**2,133,890**
Total USA	30,381,676	-	2,932,383	(2,091,328)	**31,222,731**	1,010,926	5,499,737	(369,322)	**37,364,072**
Turkey									
TV Tower (Note 10d)	-	43,014,485	2,409,956	-	**45,424,441**	-	888,763	-	**46,313,204**
Total Turkey	-	43,014,485	2,409,956	-	**45,424,441**	-	888,763	-	**46,313,204**
Total	30,381,676	43,014,485	5,342,339	(2,091,328)	**76,647,172**	**1,010,926**	**6,388,500**	**(369,322)**	**83,677,276**

10. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

a) *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 $91,249 during the year ended December 31, 2016 (year ended December 31, 2015: $487,711) upon receipt of funding from the non-controlling interest holder, Intor Resources Corporation.

b) *Black Pine Project, USA*

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

c) *Portfolio Projects, USA*

On July 7, 2016, the Company signed an Option Agreement with Logan under which Logan may earn up to an 80% interest in up to four of the Company's portfolio properties (the "Properties"). Logan may earn an initial 51% interest in four of the nine 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 1,000,000 of its 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 NI 43-101. As consideration for entering into the Option Agreement, Logan issued a total of 4,231,037 shares to the Company, and has reimbursed the Company for the annual holding costs paid for the Properties for 2016 to 2017. 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.

The fair value of Logan shares received of $380,886 was allocated proportionally based on total expenditures incurred to date on each of the individual Properties. The cash reimbursement amount for annual holding costs of $209,271 was allocated directly against each one of the individual Properties based on the actual holding costs paid. Of the total consideration, $220,835 was recognised as Other Income in relation to certain previously impaired Properties; and the remaining $369,322 was recorded against the deferred exploration expenditures of the remaining five Properties.

During the year ended December 31, 2015, three of the Company's portfolio properties were written down to $nil for a total of $2,091,327 following elections to not continue further exploration at these properties.

d) *TV Tower, Turkey*

On March 12, 2015, pursuant to having satisfied the following requirements, the Company increased its ownership interest in Orta Truva from 40% to 60%:

(i) Incur $21 million in eligible exploration expenditures; and
(ii) 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 14f).

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.

The total consideration exchanged for a 60% interest in Orta Truva, including transaction costs was $26,188,284. Consideration was allocated to the assets acquired based on relative fair values on a 60% basis, the remaining 40%, valued at $17,494,125, 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.

(Expressed in United States Dollars, unless otherwise noted)

10. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

Orta Truva is now a fully consolidated subsidiary. TMST, a subsidiary of Teck Resources Limited holds the remaining 40% non-controlling interest (Note 15). The value of the non-controlling interest in Orta Truva has increased by $303,131 during the year ended December 31, 2016 (the period from acquisition to December 31, 2015: $1,746,933), upon receipt of funding from TMST.

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 10d).

	Truva Bakır	Orta Truva	Total
At January 1, 2015	$ 5,937,563	$ 9,145,503	$ 15,083,066
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 10d)	-	(8,287,882)	(8,287,882)
At December 31, 2015	$ 5,220,727	$ -	$ 5,220,727
Share of loss	(13,484)	-	(13,484)
Funding by the Company	54,830	-	54,830
Foreign exchange differences	159,104	-	159,104
At December 31, 2016	**$ 5,421,177**	**$ -**	**$ 5,421,177**

The summarised financial information for Truva Bakır on a 100% basis is as follows:

	As at December 31,	
	2016	**2015**
Current assets	$ 1,998,751	$ 452,859
Non-current assets	11,639,584	12,718,499
Current liabilities	(85,393)	(119,540)
Total net assets	$ 13,552,942	$ 13,051,818
% interest held	40%	40%
Company's share of net assets	**$ 5,421,177**	**$ 5,220,727**
Loss	(33,710)	(131,687)
% interest held	40%	40%
Company's share of loss	**$ (13,484)**	**$ (52,675)**

As at December 31, 2016, the Company has immaterial outstanding receivables from Truva Bakır (December 31, 2015: $39,033) that have been collected subsequent to year end.

(Expressed in United States Dollars, unless otherwise noted)

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As at December 31, 2016	2015
Trade payables	$ 736,104	$ 266,870
Other payables	40,869	56,018
Accrued liabilities	82,324	144,240
Decommissioning liability - current	38,000	10,000
	$ 897,297	**$ 477,128**

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

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 2016 of 26.00% (2015 – 26.00%).

	Year ended December 31, 2016	2015
Loss before taxes	$ (5,313,067)	$ (6,927,432)
Statutory tax rate	26.00%	26.00%
Expected income tax recovery	(1,381,397)	(1,801,132)
Permanent differences	757,503	2,116,734
Benefit not recognized and other	1,306,187	159,221
Income tax expense (recovery)	$ 682,293	$ 474,823

b) A deferred tax liability of $1,157,116 has been recognised in the period ended December 31, 2016 (December 31, 2015: $474,823) 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, 2016:

	As at December 31, 2016	2015
Operating losses carried forward	$ 38,399,828	$ 29,418,277
Equipment	513,337	569,578
Mineral properties	(6,941,942)	(3,222,761)
Investments and other	2,704,734	2,510,232
Total temporary differences	$ 34,675,957	$ 29,275,326

d) The Company has non capital losses which may be applied to reduce future taxable income. These losses expire between 2017 and 2034:

Canada	US	Turkey	**Total**
$17,885,000	$19,282,000	$1,233,000	$38,400,000

There are no income taxes owed by Pilot Gold as at December 31, 2016.

14. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized

Unlimited Common Shares with no par value.

b) Issued

i) 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.

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$1,708,781) and Common Shares: $2,072,798 (C$2,764,469). A total of $52,107 in transaction costs were recognised in equity.

ii) On June 14, 2016 as partial consideration for the acquisition of the Black Pine property (Note 10c) 300,000 Common Shares were issued with a fair value of C$0.67 per Common Share, totalling $156,600.

iii) On July 11, 2016 a total of 59,641 Common Shares were issued towards lease payments on the Goldstrike property, with a total fair value of $35,000.

iv) On November 16, 2016 the Company completed a bought deal financing (the "Bought-Deal") with a syndicate of underwriters (the "Underwriters") whereby the Underwriters purchased, on a bought-deal basis, 24,035,000 units of the Company ("Bought-Deal Unit") consisting of one Common Share and one half Common Share purchase warrant (each whole Common Share purchase warrant, a "Bought-Deal Warrant"), at a price of C$0.60 per Bought-Deal Unit. Each Bought-Deal Warrant will entitle the holder to acquire on Common Share at a price of C$0.90 until May 16, 2019.

The Bought-Deal Units were valued using the residual method whereby the fair value of the warrant was determined to be C$0.085 using the Black-Scholes valuation method and the following inputs: Stock price at issue C$0.45, exercise price C$0.90, risk free rate 0.66%, annualized volatility 62% and a 2.5 year expected life. Volatility was determined using the Company's share price volatility over the 2.5 years prior to issuance. The resulting allocation of the warrant fair value to the consideration received was Warrants: $761,417 (C$1,021,488) and Common Shares: $9,987,996 (C$13,399,513). A total of $842,776 in transaction costs were recognised in equity.

c) Stock-based compensation

For the year ended December 31, 2016, the Company has capitalized a total of $154,217 (December 31, 2015: $179,505) of stock-based compensation to exploration properties and deferred exploration expenditures. For the year ended December 31, 2016, the Company charged a total of $1,057,829 (2015: $1,028,821) of stock-based compensation expense to the statement of loss relating to stock-based compensation of which $45,233 (2015: $40,353) is attributed to property investigation and technical studies.

Pilot Gold Stock Option Plan

The Option Plan was approved on May 12, 2014. 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 Options in such numbers and for such terms as may be determined by the Board.

(Expressed in United States Dollars, unless otherwise noted)

14. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

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.

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

	Shares	Weighted Average Exercise Price
	#	C$
Balance, January 1, 2015	8,885,000	2.18
Options granted	997,000	1.11
Options forfeited or cancelled	(2,956,667)	3.31
Options exercised	-	-
Balance, December 31, 2015	**6,925,333**	**1.55**
Options granted	9,101,250	0.51
Options forfeited or cancelled	(1,812,501)	0.78
Options expired	(2,809,999)	1.71
Options exercised	(13,333)	0.34
Balance, December 31, 2016	**11,390,750**	**0.68**

The share price at the date of exercise of Options in the year ended December 31, 2016, was C$0.51. Options expired include Options granted to employees of the Company whose expiry dates were brought forward, on termination or resignation of the employee, to 90 days after the former employee's departure date.

At December 31, 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	8,786,250	4.46	0.52	2,866,667	0.53
C$1.00 to C$1.99	2,514,500	1.75	1.14	1,919,833	1.14
C$2.00 to C$2.99	40,000	1.10	2.13	40,000	2.13
C$3.00 to C$3.99	50,000	4.28	3.45	50,000	3.45
	11,390,750	**3.85**	**0.68**	**4,876,500**	**0.81**

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$0.27 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$0.51, volatility of 66%, dividend yield of 0%, an expected Option life of 5 years, and an annual risk-free interest rate of 0.90%. A 3.7% forfeiture rate is applied to the Option expense.

(Expressed in United States Dollars, unless otherwise noted)

14. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

d) Restricted Share Units

RSUs granted under the Pilot Gold RSU Plan to employees and service providers of the Company vest in thirds at the end of each year from the date of grant, with the exception of those granted on December 12, 2016, which vest one third immediately, then in thirds at the end of each following year.

Transactions relating to RSUs are summarised below:

	RSUs
	#
Balance, January 1, 2015	-
RSUs granted	406,910
RSUs forfeited or exercised	-
Balance, December 31, 2015	406,910
RSUs granted	1,021,250
RSUs forfeited	(117,787)
RSUs exercised	(172,520)
Balance, December 31, 2016	**1,137,853**

Expiry Date	**Number of RSUs outstanding**	**Weighted average remaining contractual life**	**Number of RSUs exercisable**
	#	(in years)	#
December 31, 2018	235,353	2.00	31,867
December 31, 2019	902,500	3.00	230,000
	1,137,853	**2.79**	**261,867**

e) Deferred Share Units

DSUs granted under the Pilot Gold DSU Plan to Directors of the Company, have no expiration date and are redeemable upon termination of service.

Transactions relating to DSUs are summarised below:

	DSUs
	#
Balance, January 1, 2015	-
DSUs granted	315,000
DSUs exercised	(60,000)
Balance, December 31, 2015	255,000
DSUs granted	603,000
Balance, December 31, 2016	**858,000**

(Expressed in United States Dollars, unless otherwise noted)

14. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

f) Warrants:

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

	Number of Warrants	Weighted Average Exercise Price
	#	C$
Balance, January 1, 2015	**7,218,164**	**2.42**
Teck Warrants expired	(3,000,000)	3.00
Warrants exercised	(7)	2.00
Balance, December 31, 2015	**4,218,157**	**2.00**
Warrants issued (Note 14b)	20,964,000	0.69
Warrants expired	(4,218,157)	2.00
Warrants exercised	(204,000)	0.40
Balance, December 31, 2016	**20,760,000**	**0.69**

The remaining contractual lives of Warrants outstanding as at December 31, 2016 are as follows:

Weighted average exercise price	Number of Warrants outstanding	Weighted average remaining contractual life
C$	#	(in years)
0.40	8,742,500	3.97
0.90	12,017,500	2.37
0.69	**20,760,000**	**3.04**

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,	
	2016	2015	2016	2015
Current				
Assets	$ 538,959	$ 248,793	$ 637,121	$ 1,606,396
Liabilities	(13,881)	(26,144)	(104,630)	(914,081)
Total Current net assets	525,078	222,649	532,491	692,315
Non-Current				
Assets	20,431,698	20,303,891	23,773,033	23,171,223
Liabilities	(52,800)	(52,800)	(1,261,746)	(474,823)
Total Non-current net assets	20,378,898	20,251,091	22,511,287	22,696,400
Net Assets	**$ 20,903,976**	**$ 20,473,740**	**$ 23,043,778**	**$ 23,388,715**

(Expressed in United States Dollars, unless otherwise noted)

15. NON-CONTROLLING INTEREST (continued)

b) Summarised Statement of Loss

	KG LLC		Orta Truva	
	Year ended December 31,		Year ended December 31,	
	2016	**2015**	**2016**	**2015**
Statement of Loss	$ 5,527	$ 10,210	$ 1,043,438	$ 1,062,862
Other comprehensive Loss	-	-	-	-
Loss and other comprehensive Loss	**$ 5,527**	**$ 10,210**	**$ 1,043,438**	**$ 1,062,862**

c) Summarised cash flows

	KG LLC		Orta Truva	
	Year ended December 31,		Year ended December 31,	
	2016	**2015**	**2016**	**2015**
Net cash flow from:				
operating activities	$ (5,378)	$ (10,210)	$ (596,489)	$ (83,691)
financing activities	390,787	2,109,168	803,131	3,828,421
investing activities	(95,243)	(1,970,087)	(1,184,541)	(2,636,634)
Net increase (decrease) in cash	290,166	128,871	(977,899)	1,108,096
Cash at the beginning of the period	247,414	118,543	1,108,096	-
Cash at the end of the period	**$ 537,580**	**$ 247,414**	**$ 130,197**	**$ 1,108,096**

See Note 10 for transactions with non-controlling interests.

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.

17. FINANCIAL RISK MANAGEMENT (continued)

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 Bakır, are incurred in United States dollars. The fluctuation of the Canadian dollar ("CAD") and the Turkish Lira 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 $46,013 increase or decrease respectively, 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 due to their short term nature.

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, 2016 is $178,132 (2015: $202,201) with an additional $55,169 (2015: $50,994) in contingent rental expenditures which consist of operating costs.

(Expressed in United States Dollars, unless otherwise noted)

18. COMMITMENTS (continued)

Total future minimum lease payments, under non-cancellable operating leases as at December 31, 2016 are as follows:

Year	
2017	$ 222,519
2018	140,335
2019	128,499
2020	130,216
2021+	371,238
	$ 992,807

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, 2016 and 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 10 and 11. The net loss is distributed by geographic segment per the table below:

	Year ended December 31,	
	2016	**2015**
Canada	$ 3,773,289	$ 3,694,849
USA	927,697	2,828,705
Turkey	1,294,374	878,701
	$ 5,995,360	**$ 7,402,255**

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

	As at December 31,	
	2016	**2015**
Canada	$ 98,024	$ 108,603
USA	139,121	166,500
Turkey	33,101	47,755
	$ 270,246	**$ 322,858**

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

(Expressed in United States Dollars, unless otherwise noted)

20. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing transactions:

	Year ended December 31, 2016	2015
Non-cash financing and investing transactions		
Non-cash recovery on mineral properties (Note 10b)	$ 380,886	$ -
Issuance of Common Shares in partial consideration in mineral property acquisition (Note 10c)	(191,600)	-
Stock based compensation within deferred exploration expenditures (Note 14)	(154,217)	(179,505)
	$ 35,069	**$ (179,505)**

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 of the Company. Oxygen provides access to administrative and finance 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 year ended December 31, 2016 total $581,975 in expenditures, reflected in the Company's consolidated statement of loss and comprehensive loss and statement of financial position (year ended December 31, 2015: $772,501). As at December 31, 2016, Oxygen holds a refundable deposit of $121,945 on behalf of the Company (December 31, 2015: $229,729) (Note 8). Additionally, as at December 31, 2016 the Company held a payable to Oxygen of $120,340 (December 31, 2015: $107,319). Amounts payable were settled subsequent to their respective year end. See also Note 18 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, 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:

	Year ended December 31, 2016	2015
Salaries and other short-term employee benefits	$ 1,064,587	$ 1,343,795
Share-based payments	1,092,687	548,581
Total	**$ 2,157,274**	**$ 1,892,376**