

PISTOL BAY MINING INC.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended

August 31, 2018 and 2017

Expressed in Canadian Dollars

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Section 4.3(3)(a) of the National Instrument 51-102, Continuous Disclosure Obligations, provides that if an auditor has not performed a review of the interim condensed financial statements, the interim financial statements must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The Company's external auditor, Manning Elliott LLP, have not performed a review of these interim condensed consolidated financial statements of Pistol Bay Mining Inc. for the three month period ended August 31, 2018.

October 25, 2018

PISTOL BAY MINING INC.INTERIM CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

	August 31, 2018	May 31, 2018
	\$	\$
ASSETS		
CURRENT ASSETS		
Cash	3,315	10,314
Amounts receivable	14,696	42,161
Prepaid expenses and deposits	-	6,875
	18,011	59,350
EQUIPMENT (Note 4)	381	414
EXPLORATION AND EVALUATION ASSETS (Note 5)	1,792,239	1,774,298
	1,810,631	1,834,062
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Notes 6,13 and 14)	421,314	353,760
Due to related parties (Note 9)	5,219	2,594
	426,533	356,354
EQUITY		
SHARE CAPITAL (Note 7)	23,625,619	23,625,619
SHARE SUBSCRIPTIONS RECEIVED (Note 7)	100,000	17,500
RESERVES (Note 8)	1,362,166	1,365,570
DEFICIT	(23,703,687)	(23,530,981)
	1,384,098	1,477,708
	1,810,631	1,834,062

NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY (Note 1)

COMMITMENTS (Notes 5 and 13)

SUBSEQUENT EVENTS (Note 16)

APPROVED BY THE BOARD OF DIRECTORS ON OCTOBER 25, 2018

ON BEHALF OF THE BOARD

"Charles Desjardins"

Director

"Dave Bissoondatt"

Director

See Accompanying Notes

PISTOL BAY MINING INC.INTERIM CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

	Three Months Ended	
	August 31, 2018	August 31, 2017
	\$	\$
EXPENSES		
Amortization	33	50
Business development and shareholder communications	14,194	40,313
Consulting fees	112,722	126,504
Management fees (Note 9)	7,500	7,500
Office services and miscellaneous	25,624	5,182
Professional fees	2,005	25,269
Rent	8,571	8,244
Share-based payments (Notes 7,8 and 9)	2,643	33,090
Transfer agent and filing fees	4,358	260
	177,650	246,412
OTHER EXPENSES		
Taxes and interest related to flow-through shares (Note 6)	(1,103)	(1,103)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	(178,753)	(247,515)
BASIC AND DILUTED LOSS PER COMMON SHARE	(0.01)	(0.01)
WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC	24,173,822	21,228,281

See Accompanying Notes

PISTOL BAY MINING INC.
INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

	Share Capital		Reserves				Total
	Number of shares issued ⁽¹⁾	Amount \$	Subscriptions Received \$	Warrant reserve \$	Share based payment reserve \$	Deficit \$	
Balance, May 31, 2017	21,041,322	23,189,021	-	606,655	741,737	(23,700,049)	837,364
Shares issued for exploration and evaluation assets	400,000	46,000	-	-	-	-	46,000
Fair value of options granted	-	-	-	-	33,090	-	33,090
Net loss for the period	-	-	-	-	-	(247,515)	(247,515)
Balance, August 31, 2017	21,441,322	23,235,021	-	606,655	774,827	(23,947,564)	668,939
Balance, May 31, 2018	24,173,822	23,625,619	17,500	606,655	758,915	(23,530,981)	1,477,708
Subscription received	-	-	82,500	-	-	-	82,500
Fair value of options vested for the options granted on March 9, 2018	-	-	-	-	2,643	-	2,643
Fair value of options cancelled	-	-	-	-	(6,047)	6,047	-
Net loss for the period	-	-	-	-	-	(178,753)	(178,753)
Balance, August 31, 2018	24,173,822	23,625,619	100,000	606,655	755,511	(23,703,687)	1,384,098

⁽¹⁾ The numbers of common shares issued have been retroactively adjusted to reflect the 2:1 share consolidation effective June 1, 2018.

See Accompanying Notes

PISTOL BAY MINING INC.**INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)**

	Three Months Ended	
	August 31, 2018	August 31, 2017
	\$	\$
CASH FLOW PROVIDED BY (USED FOR)		
OPERATING ACTIVITIES		
Net loss	(178,753)	(247,515)
Adjustments for non-cash items:		
Amortization	33	50
Flow-through tax and interest	1,103	1,103
Share-based payments	2,643	33,090
	(174,974)	(213,272)
Changes in non-cash working capital:		
Prepaid expense and deposit	6,875	8,813
Amounts due to related parties	2,625	(7,500)
Amounts receivable	27,465	(17,895)
Accounts payable and accrued liabilities	66,451	(271,563)
Net cash flow used in operating activities	(71,558)	(501,417)
INVESTING ACTIVITIES		
Exploration and evaluation assets	(17,941)	(121,977)
FINANCING ACTIVITIES		
Subscription received	82,500	-
DECREASE IN CASH	(6,999)	(623,394)
CASH, BEGINNING OF THE PERIOD	10,314	711,765
CASH, END OF THE PERIOD	3,315	88,371

ADDITIONAL CASH FLOW INFORMATION (Note 10)

See Accompanying Notes

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY

Pistol Bay Mining Inc. (the "Company") was incorporated February 20, 1995 in the Province of British Columbia. The Company's head office is located at 700 – 838 West Hastings Vancouver, BC, V6C 0A6 and its registered address is 725 Granville Street, Pacific Centre, Suite 400, Vancouver, BC V7Y 1G5.

The Company's shares are listed for trading on the TSX Venture Exchange (the "Exchange"). On May 15, 2018, the Company's Board of Directors approved a consolidation of the Company's common shares on the basis of one post-consolidated share for every two pre-consolidated shares. The effective date for the consolidation is June 1, 2018. All current and comparative share capital amounts have been restated to account for the 2-for-1 share consolidation.

On January 4, 2018, the Company incorporated a subsidiary, PB Blockchain Inc. ("PB" or "Subsidiary") under the Business Acts in British Columbia. PB focuses on blockchain applications for mining and resource company management. The Company will be leveraging the work of other Application Program Interface ("API") companies to build a suite of blockchain products to address needs that are particular to the data management and security of mining/oil gas companies. As at August 31, 2018, there have been no business activities in PB.

The Company is engaged in the exploration and development of mineral resources, currently focusing on projects in Ontario. At this time, the Company does not own any operating mines and has no operating income from mineral production. Funding for operations is raised primarily through public and private share offerings. It is not known whether the Company's mineral property contains reserves that are economically recoverable. The recoverability of amounts recorded by the Company for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability to raise funding for continued exploration and development, the completion of property option expenditures and acquisition requirements, or from proceeds from disposition.

These consolidated financial statements ("Financial Statements") have been prepared with the assumption that the Company will realize its assets and discharge its liabilities in the normal course of business. The Company's ability to meet its obligations and maintain its current operations through the ensuing twelve-month period and thereafter is contingent upon successful completion of additional financing arrangements and ultimately upon the discovery of proven reserves and generating profitable operations.

Management expects to be successful in arranging sufficient funding to meet operating commitments for the ensuing year. However, the Company's future capital requirements will depend on many factors, including the costs of exploring and developing its resource properties, operating costs, the current capital market environment and global market conditions. As at August 31, 2018, the Company has a working deficit of \$408,522 (May 31, 2018 – \$297,004) and a cumulative deficit of \$23,703,687 (May 31, 2018 - 23,530,981). Consequently, there is a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. For significant expenditures and resource property development, the Company will depend almost exclusively on outside capital. Such outside capital will include the issuance of additional equity shares. There can be no assurance that capital will be available, as necessary, to meet the Company's operating commitments and further exploration and development plans. The issuance of additional equity securities by the Company may result in significant dilution to the equity interests of current shareholders. The Company's future capital requirements will depend on many factors, including the costs of exploring and developing its resource properties, operating costs, the current capital market environment and global market conditions. The continued operations of the Company are dependent on its ability to develop a sufficient financing plan, receive continued financial support from related parties, complete sufficient public equity financing, and ultimately generate profitable operations in the future. The Company has no assurance that it will be successful in its efforts. If the Company is unable to obtain financing in the amounts and on terms deemed acceptable, the future success of the business could be adversely affected.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTY (CONTINUED)

These Financial Statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

2. BASIS OF PRESENTATION

Basis of consolidation and preparation

These Financial Statements include the accounts of the Company and its wholly-owned subsidiary, PB Blockchain Inc. Details of the controlled entity are as follows:

	Country of incorporation	Percentage owned
PB Blockchain Inc.	Canada	100%

The Company's Financial Statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value, and are presented in Canadian dollars, except where otherwise indicated. All intercompany transactions and balances have been eliminated.

Statement of compliance

The Financial Statements of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting.

The Financial Statements of the Company should be read in conjunction with the Company's 2018 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Financial Statements have been prepared using accounting policies consistent with those used in the Company's 2018 annual financial statements except for income tax expense which is recognized and disclosed for the full financial year in the audited annual financial statements.

Approval of the interim condensed consolidated financial statements

The Financial Statements of the Company for the three months ended August 31, 2018 were reviewed by the Audit Committee, and approved and authorized for issue on October 25, 2018 by the Board of Directors of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses.

Significant accounting judgments

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

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Deferred income taxes

The determination of whether it is likely that future taxable profits will be available to utilize against any deferred tax assets.

ii) Provisions

The recognition of provisions for restoration, rehabilitation and environmental obligations.

iii) Going concern

The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its exploration projects and working capital requirements.

Significant accounting estimates

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Management believes the estimates are reasonable; however, actual results could differ from those estimates and could impact future results of operations and cash flows.

i) Share-based payments

Equity-settled share options are recognized as an expense based on their fair value at the date of grant. The fair value of share options is estimated through the use of the valuation model – Black-Scholes, which require inputs such as the risk-free interest rate, expected dividends, expected volatility and the expected option life. Using different input estimates or models would produce different fair values, and result in the recognition of a higher or lower share-based payments.

ii) Exploration and evaluation costs

The estimated recovery value of the exploration and evaluation costs capitalized on the statement of financial position.

Principles of consolidation:

Control is achieved when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All inter-company transactions, balances, income and expenses are eliminated in full on consolidation.

Foreign currency translation

The Financial Statements are presented in Canadian dollar which is the Company's functional and presentation currency. The functional currency of the Company's subsidiary PB functional currency is the Canadian dollars.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currency translation (continued)

Transactions in foreign currencies are translated at rates in effect at the time of the transaction. Monetary assets and liabilities are translated at the exchange rate prevailing at the reporting date. Gains and losses are included in net earnings.

Cash

Cash includes cash on hand and deposits held at call with financial institutions.

Equipment

Recognition and measurement

On initial recognition, equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Equipment is subsequently measured at cost less accumulated amortization, less any accumulated impairment losses.

When parts of an item of equipment have different useful lives, they are accounted for as separate items (major components) of equipment.

Gains and losses

Gains and losses on disposal of an item of equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

Amortization

One-half of the normal amortization is taken in the year of acquisition for equipment with declining balance method. The amortization rates applicable to each category of property and equipment are as follows:

Computer equipment	30% - 55% declining balance
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Exploration and evaluation assets

Costs incurred before the Company has obtained the legal rights to explore an area are expensed in the period in which they are incurred.

Costs incurred to acquire the legal right to explore a property are capitalized. Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized on a property-by-property basis. These direct expenditures include such costs as surveying costs, drilling costs, labor and contractor costs, materials used and licensing and permit fees.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Exploration and evaluation assets (continued)

Once the technical feasibility and commercial viability of extracting the mineral resource have been determined the property is considered to be under development and is classified as development properties. The carrying value of exploration and evaluation assets is transferred to development properties after being tested for impairment.

Once commercial production has commenced all capitalized costs related to the property are transferred to producing properties and the costs of acquisition, exploration and development will be amortized over the life of the property based on estimated economic reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in other income for the period. If a property is abandoned, the acquisition, deferred exploration and development costs will be written off to other expenses.

Currently, all mineral properties of the Company are at the exploration stage.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

Exploration costs renounced due to flow-through share subscription agreements remain capitalized; however, for corporate income tax purpose the Company has no right to claim these costs as tax deductible expenses.

Recorded costs of mineral properties and deferred exploration costs are not intended to reflect present or future values of resource properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge that changes in future conditions could require a material change in the recognized amount.

Payments on mineral property option agreements are made at the discretion of the Company and, accordingly, are recorded as incurred.

Impairment of long-lived assets

i) Financial assets

Financial assets are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset, which can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against the asset impaired. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of Long-lived assets (continued)

ii) Non-financial assets

Exploration and evaluation assets are regularly reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amount of reserve properties may exceed its recoverable amount. When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of the value in use and fair value less costs to sell. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discounted rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the carrying amount of an asset exceeds the recoverable amount, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

When an impairment subsequently reverses, the carrying amount of the asset is increased to the revised estimate and its recoverable amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Share capital

The Company records proceeds from the issuance of its common shares as equity. Proceeds received on the issuance of units, consisting of common shares and warrants are allocated between the common share and warrant component. The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the most easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placement was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted price on the issuance date. The remaining proceeds, if any, are allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrant reserve. Management does not expect to record a value to the warrant in most equity issuances as unit private placements are commonly priced at market or at a permitted discount to market. If the warrants are issued as share issuance costs, the fair value of agent's warrants are measured using the Black-Scholes option pricing model and recognized in equity as a deduction from the proceeds.

If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in warrant reserve.

Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds. Common shares issued for consideration other than cash are valued based on their market value at the date that shares are issued.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Flow-through shares

The Company may from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company allocates the proceeds from flow-through shares into 1) share capital based on the fair value of the Company's shares at the date of issuance, and 2) a flow-through share premium, calculated based on the share issuance price and market price at the time of closing, if any, which is recognized as a liability. In accordance with IAS 12, Income Taxes, a deferred tax liability is recognized, with certain specific exceptions, for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position and its tax base. Upon expenditures being incurred, the flow-through share premium is drawn down proportionately and recorded to either other income or deferred tax recovery. In instances where the Company has sufficient deductible temporary differences available to offset the deferred income tax liability created from renouncing qualifying expenditures, the realization of the deductible temporary differences will be shown as a recovery in profit or loss in the period of renunciation.

Proceeds received from the issuance of flow-through shares must be used only for Canadian resource property exploration expenditures within a two-year period.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-Back Rule, in accordance with Canada Revenue Agency flow-through regulations. When applicable, this tax is accrued as a financial expense.

Earnings (loss) per share

Earnings (Loss) per share is calculated on the basis of the weighted average number of common shares outstanding during the year. The Company follows the treasury share method to calculate the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Existing share options and share purchase warrants have not been included in the computation of diluted loss per share, as it would be anti-dilutive. Accordingly, basic and diluted loss per share is the same for the periods presented.

Share-based payments

Equity-settled share options awarded to employees and other providing similar services are measured at the fair value of the options at the date of grant is charged to profit and loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payments (continued)

When equity instruments are granted to non-employees, they are recorded at the fair value of the goods and services received, unless the fair value of the goods and services received cannot be reasonably measured, in which case they are measured using the fair value of the equity instruments issued. Expenses are recorded in the statement of comprehensive loss. Amounts related to the cost of issuing shares are recorded as a reduction of share capital. Amounts related to the issuance of shares for mineral interests are capitalized in mineral interests on the statement of financial position.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by using a valuation model.

All equity-settled share-based payments are reflected in share based payments reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share based payment reserve is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

Deferred Income taxes

Deferred income tax is recorded using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Financial instruments and risks

The Company classifies its financial assets and liabilities into one of the following categories, depending on the purpose for which the financial instrument was required. The Company's accounting policy for each category is as follows:

- i) Financial assets and financial liabilities at fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities classified as FVTPL are acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are recognized at fair value based on market prices, with any resulting gains and losses reflected in net income for the period in which they arise.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments and risks (continued)

ii) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that an entity has the intention and ability to hold to maturity. They are measured at amortized cost using the effective interest method less any impairment loss. A gain or loss is recognized in net income when the financial asset is derecognized or impaired, and through the amortization process.

iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale, or that are not classified as loans and receivables, held-to-maturity investments, or FVTPL. They are measured at fair value. Fair value is determined based on market prices. Equity instruments that do not have a quoted market price in an active market are measured at cost. Gains and losses are recognized directly in other comprehensive income until the financial asset is derecognized, at which time the cumulative gain or loss previously recognized in accumulated other comprehensive income is recognized in net income for the year.

iv) Loans and receivables

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

v) Financial liabilities

Financial liabilities are classified as other financial liabilities or FVTPL, based on the purpose for which the liability was incurred. The Company's liabilities comprise accounts payable and due to related parties, all of which are classified as other financial liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position.

Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Accounts payable represent liabilities for goods and services provided to the Company prior to the end of the year which are unpaid.

The Company has classified its financial instruments as follows:

- Cash is classified as FVTPL
- Accounts payable and amounts due to related parties are classified as other financial liabilities

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments and risks (continued)

v) Financial liabilities (continued)

Transaction costs related to financial instruments other than FVTPL are capitalized as part of the cost of the financial instrument. Where the Company has entered into net smelter royalties or other similar participatory arrangements with property vendors or purchasers, such arrangements are considered to be derivative instruments. Additionally, the Company may have purchase options associated with net smelter royalties which are derivative instruments. The fair value of these derivative instruments is not reliably measurable until proven economically recoverable reserves have been identified.

Per IFRS 7, three levels of the fair value hierarchy that reflects the significance of inputs used in making fair value adjustments are required. The three levels of the fair value hierarchy are as follows:

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.

Provisions

The Company may be subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company would record the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the year in which the obligation is incurred. The typical nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites. Management has assessed that there are no legal or constructive obligations presently and for all periods presented.

When a liability is recognized, the present value of the estimated rehabilitation cost is capitalized by increasing the carrying amount of the related exploration properties. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the year in which they occur.

Other provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ADOPTION OF NEW OR AMENDED ACCOUNTING STANDARDS

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the IFRIC during the year, but are not yet effective. None of these are expected to have a significant effect on the financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

IFRS 2 Share-based Payment - In November 2016, the IASB has revised IFRS 2 to incorporate amendments issued by the IASB in June 2016. The amendment provides guidance on the accounting for i) the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; ii) share-based payment transactions with a net settlement feature for withholding tax obligations and iii) a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for annual periods beginning on or after January 1, 2018. Earlier application is permitted.

IFRS 9 Financial Instruments – IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 is applicable to annual reporting periods beginning on or after January 1, 2018.

IFRS 15 Revenue from Contracts with Customers - IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. IFRS 15 is applicable to annual reporting periods beginning on or after January 1, 2018.

IFRS 16 Leases - IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. IFRS 15 is applicable to annual reporting periods beginning on or after January 1, 2019.

The Company does not expect that the new and amended standards will have a significant impact on its financial statements.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

4. EQUIPMENT

	August 31, 2018			May 31, 2018		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	\$	\$	\$	\$	\$	\$
Computer	41,370	40,989	381	41,370	40,956	414

5. EXPLORATION AND EVALUATION ASSETS

a) Dixie Property, Ontario

Dixie 17-18-19 properties:

On May 26, 2015 and amended on March 22, 2016, the Company entered into an option agreement to acquire 100% Zinc-Copper properties located in the Red Lake, Ontario region. The Dixie 17-18-19 properties consist of 1,072 hectares located in the Confederation Lake greenstone belt, 35 kilometers southeast of Red Lake, Ontario.

To earn the 100% interest in the Dixie 17-18-19 properties, the Company is required to make total cash payments of \$76,000 and issue a total of 1,200,000 common shares of the Company over a four-year period as follows:

- Issue 500,000 shares (issued with a fair value of \$49,000) to the optionors upon Exchange approval (Approved on July 3, 2015).
- Pay \$10,000 (paid) and issue 300,000 shares (issued on June 7, 2016 at a fair value of \$30,000) to the optionors on or before the first-year anniversary of Exchange approval (July 3, 2016).
- Pay \$16,000 (paid) and issue 400,000 shares (issued 300,000 shares on July 12, 2017 at a fair value of \$36,000 and 100,000 shares on August 9, 2017 at a fair value of \$10,000) to the optionors on or before the second-year anniversary of Exchange approval (July 3, 2017).
- Pay \$20,000 (paid \$10,000 during the three months ended August 31, 2018 and paid \$10,000 subsequent to August 31, 2018) to the optionors on or before the third-year anniversary of Exchange approval (July 3, 2018).
- Pay \$30,000 to the optionors on or before the fourth anniversary of Exchange approval (July 3, 2019).

The vendors of the Dixie 17-18-19 properties will retain a 0.5% net smelter royalty, which may be repurchased for \$400,000 at any time up to when a production decision is made. Rubicon Mineral Corp. will also retain a 0.5% net smelter royalty

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

a) Dixie Property, Ontario (continued)

Dixie 17-18-19 properties (continued)

On March 22, 2016, the Company received Exchange approval to amend the terms of the option agreement for the Dixie 17-18-19 properties previously announced May 26, 2015. Under the amended agreement, the vendor received 200,000 additional common shares of the Company in lieu of a \$10,000 cash payment which was due upon execution of the original option agreement. As a result of the change, the Company is required to make total cash payments of \$76,000 and issue a total of 1,200,000 common shares over a four-year period, as stipulated above.

Dixie 3 property:

On September 1, 2016, the Company executed an option agreement to acquire a 100% interest in additional Zinc-Copper property located in the Red Lake, Ontario region. The 640-hectare (1,580 acre) Dixie 3 property is located in northwest Ontario region.

To earn the 100% interest in the Dixie 3 property, the Company is required to make total cash payments of \$56,000 and issue a total of 1,200,000 common shares over a three-year period as follows:

- Pay \$8,000 (paid) and issue 250,000 common shares (issued on October 14, 2016 at a fair value of \$45,000) to the optionors upon Exchange approval (approved on October 7, 2016).
- Pay \$12,000 (paid) and issue 300,000 common shares (issued on November 29, 2017 at a fair value of \$30,000) to the optionors on or before the first-year anniversary of Exchange approval (October 7, 2017).
- Pay \$16,000 (paid \$3,000) and issue 300,000 common shares (subsequently issued at a fair value of \$15,000) to the optionors on or before the second-year anniversary of Exchange approval (October 7, 2018).
- Pay \$20,000 and issue 350,000 common shares to the optionors on or before the third-year anniversary of Exchange approval (October 7, 2019).

The vendors of the Dixie 3 property will retain a 0.5% net smelter returns royalty, which may be repurchased for \$400,000 at any time up to when a production decision is made. Rubicon Minerals Corp. will also retain a 0.5% net smelter returns royalty.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

b) AurCrest Property, Ontario

On October 26, 2016, the Company entered into an option agreement with AurCrest Gold Inc. to acquire a 100% interest in the AurCrest properties located in the Confederation Lake greenstone belt southeast of Red Lake, Ontario. The AurCrest property comprises the Confederation Lake Property and the Fredart Lake Property.

To earn the 100% interest, the Company is required to make total cash payments of \$250,000 and issue a total of 2,500,000 common shares of the Company over a four-year period as follows:

- Pay \$25,000 (paid) and issue 500,000 common shares (issued at a fair value of \$60,000) on the closing (approved by Exchange on January 11, 2017)
- Pay \$25,000 (paid) within 90 days following the closing date of the agreement (January 11, 2017)
- Pay \$50,000 (paid) and issue 500,000 common shares (issued on January 17, 2018 at a fair value of \$80,000) on or before the first-year anniversary of the closing date (January 11, 2018)
- Pay \$50,000 and issue 500,000 common shares on or before the second-year anniversary of the closing date (January 11, 2019)
- Pay \$50,000 and issue 500,000 common shares on or before the third-year anniversary of the closing date (January 11, 2020)
- Pay \$50,000 and issue 500,000 common shares on or before the fourth-year anniversary of the closing date (January 11, 2021)

Additionally, pursuant to the option agreement, the Company is required to pay an annual advance royalty payment of \$10,000 every year to an optionor. During the year ended May 31, 2018, the Company paid \$10,000 (2017 - \$10,000) for annual advance royalty to the optionor.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

c) Joy North Property, Ontario

On February 9, 2017, the Company entered into an option agreement with an arm's length vendor to acquire a 100% interest in the Joy North Property. The 64-hectare Joy North Property located in the Gerry Lake Area, approximately 50km southeast of Red Lake, Ontario.

To earn the 100% interest in the Joy North Property, the Company is required to make total cash payments of \$40,500 and issue a total of 502,500 common shares of the Company over a four-year period as follows:

- Pay \$3,000 (paid) and issue 27,500 common shares (issued on February 21, 2017 at a fair value of \$3,850) to the optionors upon Exchange approval (approved date was on February 21, 2017)
- Issue 50,000 common shares (issued on March 20, 2018 at a fair value of \$5,500) to the optionors on or before the first-year anniversary of the approval date (February 21, 2018)
- Issue 50,000 common shares to the optionors on or before the second-year anniversary of the approval date (February 21, 2019)
- Issue 75,000 common shares to the optionors on or before the third-year anniversary of the approval date (February 21, 2020)
- Pay \$37,500 and issue 300,000 common shares to the optionors on or before the fourth-year anniversary of the approval date (February 21, 2021)

In addition to the cash payments and issuance of common shares, the Company is required to drill a minimum of two diamond drill holes with core of BTW or larger size, to a minimum aggregate depth of 600 metres on the property, subject to the Company being granted an Early Exploration Permit by the Ministry of Northern Development and Mines.

A 2% net smelter returns royalty ("NSR") is payable to the optionor, of which 1% may be purchased at any time by the Company for \$500,000 and the remaining 1% at any time for \$1,500,000.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

d) Lucky 7 Property, Ontario

On March 20, 2017, the Company entered into an option agreement to acquire a 100% interest in the Lucky 7 Property located in the Confederation Lake greenstone belt, southeast of Red Lake, Ontario. The property covers 640 hectares.

To earn the 100% interest in the property, the Company is required to make total cash payments of \$72,000 and issue a total of 1,150,000 common shares over a three-year period as follows:

- Pay \$12,000 (paid) and issue 200,000 common shares (issued on April 27, 2017 at a fair value of \$28,000) to the optionors upon TSX-V Exchange approval (approval date was on April 27, 2017)
- Pay \$16,000 (paid) and issue 250,000 common shares (issued on May 10, 2018 at a fair value of \$20,000) to the optionors on or before the first anniversary of the approval date (April 27, 2018)
- Pay \$20,000 and issue 300,000 common shares to the optionors on or before the second anniversary of the approval date (April 27, 2019)
- Pay \$24,000 and issue 400,000 common shares to the optionors on or before the third anniversary of the approval date (April 27, 2020)

A 1.5% net smelter return royalty is payable to the optionors, of which 0.75% may be purchased at any time for \$400,000.

e) Mitchell, Gerry Lake and Karas Lake Property, Ontario

On December 28, 2017, the Company entered into an option agreement to acquire a 100% interest in the Mitchell, Gerry Lake and Karas Lake Property, located in the Karas Lake area, Red Lake Mining Division, Ontario. The properties cover approximately 3,700 hectares.

Pursuant to the option agreement to acquire a 100% interest in the property, the Company is required to pay a total of \$104,000 and issue an aggregate 250,000 common shares over a four-year period as follows:

- Pay \$20,000 (paid) to the optionor upon signing the agreement (December 28, 2017)
- Issue 150,000 common shares (issued on January 24, 2018 at a fair value of \$27,000) to the optionor within five days of the acceptance date (January 30, 2018)
- Pay \$16,000 and issue 100,000 common shares to the optionor on the first anniversary of the acceptance date (January 30, 2019)
- Pay \$18,000 to the optionor on the second anniversary of the acceptance date (January 30, 2020)
- Pay \$20,000 to the optionor on the third anniversary of the acceptance date (January 30, 2021)
- Pay \$30,000 to the optionor on the fourth anniversary of the acceptance date (January 30, 2022)

A 1.5% NSR has been granted to the optionors, of which 0.75% may be purchased at any time by the Company for \$400,000. All shares issued will be subject to a hold period expiring four months and one day from the day of issuance.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

f) Athabasca Basin, Saskatchewan

On February 7, 2018, the Company entered into an amended and final agreement with Rio Tinto PLC (“Rio Tinto”), whereby Rio Tinto will acquire the remaining 25% of the interest in three mineral claims located in the eastern Athabasca Basin of Saskatchewan by paying an initial cash payment of \$750,000 (paid) and making a cash payment of \$1,000,000 (paid) to the Company by February 21, 2018.

Pursuant to the amended agreement, Rio Tinto increased its aggregate interest to 100% in the property.

As the Company had previously written the property costs down to \$Nil, the \$1,000,000 (2017 - \$750,000) was recorded as a gain on the consolidated statements of comprehensive income (loss) during the year ended May 31, 2018.

g) Copperlode Property, Ontario

On May 5, 2017, the Company entered into a Letter of Intent with Frontline Gold Corp. to acquire up to an 80% interest in 4 mining claims comprising 31 claim units, covering a total area of approximately 496 hectares and located in Ontario, otherwise known as the Copperlode Property.

To acquire the 65% interest in the Copperlode property, the Company is required to make cash payments totaling \$26,000, issue a total of 225,000 common shares over a two-year period and to expend a total of \$150,000 on exploration expenditures over a period of three years. The interest can be increased to 80 per cent by making an additional \$50,000 cash payments and issuing 150,000 common shares within 90 days after earning the initial 65% interest.

As at May 31, 2018, management decided not to pursue the Copperlode Property.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)

As of August 31, 2018, and May 31, 2018, the exploration and evaluation assets consist of the following:

	Dixie Property, Ontario \$	Aurcrest Property, Ontario \$	Joy North Property, Ontario \$	Lucky 7 Property, Ontario \$	Mitchell, Gerry Lake, Karas Lake Property, Ontario \$	Total \$
BALANCE MAY 31, 2017	338,131	381,133	55,831	72,654	-	847,749
ACQUISITION COSTS:						
Cash	31,000	50,000	-	16,000	20,000	117,000
Shares	76,000	80,000	5,500	20,000	27,000	208,500
Total acquisition costs	107,000	130,000	5,500	36,000	47,000	325,500
EXPLORATION COSTS:						
Advancement	(19,400)	78,075	-	-	-	58,675
Supplies	-	1,861	82	55	-	2,000
Ground work	-	278,630	3,541	3,047	-	285,218
Consulting expenses	-	166,506	12,429	8,286	-	187,221
Royalty payments	-	10,000	-	-	-	10,000
Staking	4,220	-	2,400	-	-	6,620
Storage	20,800	1,823	-	-	-	22,623
Travel and transportation	-	23,949	901	3,844	-	28,694
Total exploration costs	5,620	560,844	19,353	15,232	-	601,049
BALANCE MAY 31, 2018	450,751	1,071,977	80,684	123,886	47,000	1,774,298
ACQUISITION COSTS:						
Cash	10,000	-	-	-	-	10,000
Total acquisition costs	10,000	-	-	-	-	10,000
EXPLORATION COSTS:						
Advancement	(1,600)	-	-	-	-	(1,600)
Ground work	-	7,914	-	27	-	7,941
Storage	1,600	-	-	-	-	1,600
Total exploration costs	-	7,914	-	27	-	7,941
BALANCE AUGUST 31, 2018	460,751	1,079,891	80,684	123,913	47,000	1,792,239
TOTAL COSTS:						
Cash	59,000	100,000	3,000	28,000	20,000	210,000
Shares	200,000	140,000	9,350	48,000	27,000	424,350
Exploration costs	201,751	839,891	68,334	47,913	-	1,157,889
BALANCE AUGUST 31, 2018	460,751	1,079,891	80,684	123,913	47,000	1,792,239

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

6. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES

	August 31, 2018	May 31, 2018
	\$	\$
Accounts payables	295,726	229,274
Flow through tax liabilities	23,041	23,041
Penalties assessed ⁽¹⁾	102,547	101,445
	421,314	353,760

During the year ended May 31, 2018, the Company paid \$82,657 (2017 - \$Nil) to the Canada Revenue Agency for Flow through tax liabilities. In addition, the Company recognized a write-down of accounts payable of \$176,246 (2017 - \$194,086) for the accrued amounts related to the indemnification on the unfulfilled commitments (Note 13).

⁽¹⁾ During the year ended May 31, 2015, the Canada Revenue Agency conducted an audit of the Company's corporate and payroll records and assessed total penalties of \$88,213 under the Income Tax Act. During the three months ended August 31, 2018 and 2017, the Company has accrued interest and penalties of \$1,103 per period towards the amounts owing.

7. SHARE CAPITAL

The authorized share capital of the Company consists of an unlimited number of common shares without par value.

During the three months ended August 31, 2018:

- i. On June 1, 2018, the Company completed a share consolidation in which one (1) post-consolidated common share replaced two (2) pre-consolidated common shares. All current and comparative share capital amounts have been restated to account for the 2-for-1 share consolidation.
- ii. During the three months ended August 31, 2018, the Company received \$82,500 for subscription of non flow-through common shares in connection with its private placement. As of the date of this report, the shares have been issued (Note 16).

During the year ended May 31, 2018:

- i. On July 12, 2017, the Company issued 300,000 common shares valued at \$36,000 for the acquisition of exploration and evaluation assets.
- ii. On August 9, 2017, the Company issued 100,000 common shares valued at \$10,000 for the acquisition of exploration and evaluation assets.
- iii. On October 16, 2017, the Company issued 500,000 common shares for gross proceeds of \$50,000 for warrants exercised.
- iv. On November 29, 2017, the Company issued 300,000 common shares valued at \$30,000 for the acquisition of exploration and evaluation assets.
- v. On December 20, 2017, the Company issued 252,500 common shares for gross proceeds of \$26,250 for options exercised.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

7. SHARE CAPITAL (CONTINUED)

- vi. On January 11, 2018, the Company issued 50,000 common shares for gross proceeds of \$5,000 for options exercised.
- vii. On January 17, 2018, the Company issued 500,000 common shares valued at \$80,000 for the acquisition of exploration and evaluation assets.
- viii. On January 22, 2018, the Company issued 530,000 common shares for gross proceeds of \$79,500 for warrants exercised.
- ix. On January 24, 2018, the Company issued 25,000 common shares for gross proceeds of \$3,500 for options exercised.
- x. On January 24, 2018, the Company issued 150,000 common shares valued at \$27,000 for the acquisition of exploration and evaluation assets.
- xi. On February 21, 2018, the Company issued 100,000 common shares for gross proceeds of \$14,000 for options exercised.
- xii. On March 20, 2018, the Company issued 50,000 common shares valued at \$5,500 for the acquisition of exploration and evaluation assets.
- xiii. On March 29, 2018, the Company issued 25,000 common shares for gross proceeds of \$2,500 for options exercised.
- xiv. On May 10, 2018, the Company issued 250,000 common shares valued at \$20,000 for the acquisition of exploration and evaluation assets.

Share Options

Under the Company's share option plan, the Company may grant options to employees, consultants and directors up to 10% of the issued and outstanding share capital at the date of grant. The exercise price of the options granted will be no less than the discounted market price of the Company's shares and the maximum term of the options will be 10 years or such longer term as permitted by the Exchange.

Share options granted to directors, employees and consultants, other than employees or consultants engaged in Investor Relations activities, will vest fully on the date of grant. Share options granted to employees or consultants engaged in Investor Relations activities will vest in stages over a minimum period of twelve months with no more than one-quarter of the share options vesting in any three-month period.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate. The pricing models adopted by management do not necessarily provide a consistent single measure of the fair value of the Company's share options and other share-based transactions.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

7. SHARE CAPITAL (CONTINUED)

Share Options (Continued)

During the three months ended August 31, 2018:

- i. During the three months ended August 31, 2018, 50,000 share options were cancelled unexercised, resulting in the transfer of \$6,047 from share-based payment reserve to deficit.
- ii. On June 9, 2018, 25,000 of the 100,000 share options granted on March 9, 2018 to a consultant, were vested. \$2,643 of the fair value of options has been expensed with a corresponding credit to share-based payment reserve.

During the year ended May 31, 2018:

- i. On August 8, 2017, the Company granted 375,000 share options, which are exercisable for a period of three years, at a price of \$0.10 per share. The fair value of \$33,090 was estimated using the Black-Scholes pricing model with estimated, stock price of \$0.10, volatility 179.62%, risk-free rate 1.25%, dividend yield 0%, and expected life of 3 years.
- ii. On January 4, 2018, the Company granted 237,500 share options, which are exercisable for a period of three years, at a price of \$0.14 per share. The fair value of \$28,723 was estimated using the Black-Scholes pricing model with estimated, stock price of \$0.14, volatility 170.52%, risk-free rate 1.74%, dividend yield 0%, and expected life of 3 years.
- iii. On March 9, 2018, the Company granted 100,000 share options, which are exercisable for a period of five years, at a price of \$0.12 per share. The stock options vest as follows: (i) 25,000 options on March 9, 2018, (ii) 25,000 options on June 9, 2018, (iii) 25,000 options on September 9, 2018, and (iv) 25,000 options on December 9, 2018. The fair value was estimated using the Black-Scholes pricing model with estimated, stock price of \$0.12, volatility 180.37%, risk-free rate 2.08%, dividend yield 0%, and expected life of 5 years. With these assumptions, the fair value of options was determined to be \$11,394 of which \$7,587 has been expensed with a corresponding credit to share-based payment reserve. The remaining value will be expensed at the corresponding vesting date.
- iv. During the year ended May 31, 2018, 27,500 share options expired unexercised, resulting in the transfer of \$4,874 from share-based payment reserve to deficit.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

7. SHARE CAPITAL (CONTINUED)

Share Options (Continued)

A summary of share options outstanding is as follows:

	Outstanding and exercisable	Weighted Average Exercise Price (\$)	Weighted Average Years to Expiry
Balance at May 31, 2017	1,757,500	0.18	3.89
Granted	712,500	0.12	
Exercised	(452,500)	0.11	
Expired and Cancelled	(27,500)	1.11	
Balance at May 31, 2018	1,990,000	0.16	2.80
Cancelled	(50,000)	0.14	
Balance at August 31, 2018	1,940,000	0.16	2.56

As at August 31, 2018, the Company had share purchase options outstanding to directors, officers, employees and consultants as follows:

Outstanding and Exercisable	Exercise Price	Expiry Date
10,000	\$1.05	January 23, 2019
17,500	\$0.55	April 8, 2019
150,000	\$0.10	April 20, 2021
75,000	\$0.11	July 6, 2021
12,500	\$0.11	July 28, 2021
200,000	\$0.16	August 18, 2021
537,500	\$0.17	September 2, 2021
100,000	\$0.14	December 13, 2021
75,000	\$0.10	January 12, 2022
50,000	\$0.16	February 22, 2022
375,000	\$0.20	March 21, 2020
150,000	\$0.10	August 8, 2020
87,500	\$0.14	January 4, 2021
100,000	\$0.12	March 9, 2021
1,940,000		

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

7. SHARE CAPITAL (CONTINUED)

Warrants

The Company applied the fair value method using the Black-Scholes option pricing model in accounting for its agent's warrants.

During the three months ended August 31, 2018

On June 29, 2018, 1,388,750 share purchase warrants issued on December 29, 2016 expired unexercised.

On August 29, 2018, 3,286,250 share purchase warrants issued on August 29, 2016 expired unexercised.

During the year ended May 31, 2018:

On October 16, 2017, 500,000 warrants were exercised at a price of \$0.10 per unit for total proceeds of \$50,000.

On January 22, 2018, 530,000 warrants were exercised at a price of \$0.15 per unit for total proceeds of \$79,500.

During the year ended May 31, 2018, 1,099,750 warrants expired unexercised.

A summary of changes in share purchase warrants outstanding is as follows:

	Outstanding and exercisable	Weighted average exercise price \$	Weighted average number of year to expiry
Balance at May 31, 2017	12,157,812	0.20	1.16
Expired	(1,099,750)	0.10	
Exercised	(1,030,000)	0.13	
Balance at May 31, 2018	10,028,062	0.22	0.28
Expired	(4,675,000)	0.19	
Balance at August 31, 2018	5,353,062	0.25	0.09

Details of warrants outstanding as at May 31, 2018 are as follows:

Outstanding and Exercisable	Exercise price \$	Expiry Date	Remaining contractual life (in years)
441,134	0.300	September 20, 2018	0.05
2,845,429	0.240	September 20, 2018	0.05
1,980,000	0.240	October 27, 2018	0.16
86,500	0.250	October 27, 2018	0.16
5,353,063			0.09

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

8. RESERVES

Share based payment reserve

The share option reserve records items recognized as share-based payments expense until such time that the share options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire or are forfeit, the corresponding amount previously recorded is transferred from share-based payments reserve to deficit.

	\$
Balance, May 31, 2017	741,737
Granted	69,400
Fair value of share options exercised	(47,348)
Fair value of share options expired and cancelled	(4,874)
Balance, May 31, 2018	758,915
Fair Value of options vested for the options granted on March 9, 2018	2,643
Fair value of share options cancelled	(6,047)
Balance, August 31, 2018	755,511

Warrant reserve

The warrant reserve records items recognized as warrants until such time that the warrants are exercised, at which time the corresponding amount will be transferred to share capital. If the warrants expire unexercised, the amount previously recorded remains in warrant reserves.

	\$
Balance, May 31, 2017	606,655
No agent warrants granted, expired or exercised	-
Balance, August 31, 2018 and May 31, 2018	606,655

9. RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and measured at the exchange amount, which is the amount of consideration established and agreed by the related parties. Amounts due to or from related parties are non-interest bearing and unsecured.

	August 31, 2018	May 31, 2018
	\$	\$
Amount due to companies with directors in common	5,219	2,594

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

9. RELATED PARTY TRANSACTIONS (CONTINUED)

During the three months ended August 31, 2018 and 2017, the Company incurred the following amounts through transactions with directors and a company controlled by a director

	August 31, 2018	August 31, 2017
	\$	\$
Management fees	7,500	7,500
Share-based payments	-	4,412
	7,500	11,912

Key Management Compensation:

Key management includes directors (executive and non-executive) and officers of the Company. The compensation paid or payable to key management is as follows:

- During the three months ended August 31, 2018 and 2017, the Company paid or accrued \$7,500 to the Chief Financial Officer ("CFO") (2017 - \$7,500) in management fees.

Share-based payment consisted of the following:

	August 31, 2017	
	Number of options	Share-based payment
		\$
CFO	50,000	4,412
	50,000	4,412

10. ADDITIONAL CASH FLOW INFORMATION

During the three months ended August 31, 2018 and 2017, the Company incurred non-cash financing and investing activities as follows:

	For the three months ended	
	August 31, 2018	August 31, 2017
	\$	\$
Non-cash financing activities:		
Fair value of options granted and vested	2,643	33,090
Fair value of options cancelled	(6,047)	-
Non-cash investing activities:		
Shares issued for exploration and evaluations assets	-	46,000

11. CAPITAL MANAGEMENT

The Company considers its capital structure to include net residual equity of all assets, less liabilities. The Company's objectives when managing capital are to (i) maintain financial flexibility in order to preserve its ability to meet financial obligations and continue as a going concern; (ii) maintain a capital structure that allows the Company to pursue the development of its mineral properties; and (iii) optimize the use of its capital to provide an appropriate investment return to its shareholders commensurate with risk

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

11. CAPITAL MANAGEMENT (CONTINUED)

The Company's financial strategy is formulated and adapted according to market conditions in order to maintain a flexible capital structure that is consistent with its objectives and the risk characteristics of its underlying assets. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, acquire or dispose of assets, or adjust the amount of cash and cash equivalents and receivables. The Company is not subject to any externally imposed capital requirements.

12. FINANCIAL INSTRUMENTS AND RISKS

Fair Values

The following table outlines the Company's financial instruments measured at fair value by level with the fair value hierarchy described in Note 3. Assets and liabilities are classified based on the lowest level of input that is significant to the fair measurement.

As at August 31, 2018 and May 31, 2018, the Company's financial instruments measured at fair value are as follows:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
August 31, 2018				
Cash	3,315	-	-	3,315
May 31, 2018				
Cash	10,314	-	-	10,314

Financial Instrument Risks

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, market risk, liquidity risk and currency risk.

a) Credit risk

The Company is exposed to credit concentration risk by holding cash and cash equivalents. This risk is minimized by holding the investments in large Canadian financial institutions. The Company has no accounts receivable exposure, and its various refundable credits are due from Canadian Government agencies.

b) Interest rate risk

The Company is exposed to minimal interest rate risk. Fluctuations in market interest rates do not have a significant impact on the Company's operations.

c) Market risk

The Company is exposed to market risk for fluctuating values of its publicly traded marketable securities and other company investments. The Company has no control over these fluctuations and does not hedge its investments.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

12. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)

d) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. As at the three months ended August 31, 2018, the Company manages this risk by monitoring its working capital to ensure its expenditures will not exceed available resources. As at August 31, 2018, the Company had cash of \$3,315 (May 31, 2018 - \$10,314) and a working capital deficit of \$408,522 (May 31, 2018 - \$297,004). The Company may not be able to settle accounts payable of \$421,314 (May 31, 2018 - \$353,760) which fall due for payment within twelve months of the statement of financial position date.

Currency risk is the risk to the Company's expenses that arises from fluctuations in foreign exchange rates and the degree of volatility of these rates. At August 31, 2018, the Company's cash is held in Canadian dollars and accordingly the Company's exposure to foreign currency risks on cash balances held in foreign currencies is not expected to be significant.

13. COMMITMENTS

Flow-through shares tax liabilities

The Company entered into Flow-through Share Subscription Agreements in the calendar year ended December 31, 2010 whereby it was committed to incur on or before December 31, 2011 a total of \$1,154,819 of qualifying Canadian Exploration Expenses ("CEE") as defined in the Income Tax Act of Canada.

The Company had Canadian Exploration Expenditure obligations of \$301,125 that was required to be fulfilled by December 2012. As the Company did not fulfill the expenditure obligation, Canada Revenue Agency ("CRA") assessed penalties in the amount of \$36,072. Furthermore, the Company may also have to indemnify shareholders for taxes and penalties related to the unspent portion of the commitment. An estimated amount totaling \$130,000 had been previously accrued related to the indemnification on the unfulfilled commitments. The outcome of the amount of actual claims and penalties, if any, is contingent on future assessments of CRA.

The Company entered into flow-through share subscription agreements in the calendar year ended December 31, 2011 whereby it was committed to incur on or before December 31, 2012 a total of \$347,900 of qualifying Canadian Exploration Expenses ("CEE") as described in the Income Tax Act of Canada. The Company had Canadian Exploration Expenditure obligations of \$347,500 that was required to be fulfilled by December 31, 2012. CRA has assessed a penalty in the amount of \$37,935 related to Part XII.6 tax penalties on the unfulfilled commitments. Furthermore, the Company may also have to indemnify shareholders for taxes and penalties related to the unspent portion of the commitment.

An estimated amount totaling \$134,100 had been accrued related to the indemnification on the unfulfilled commitments. The outcome of the amount actual claims and penalties, if any, is contingent on future assessments of CRA.

During the year ended May 31, 2018, the probability of settlement of the potential liability decreased sufficiently for the Company allowing it to derecognize the provision. As a result, the Company recognized additional recoveries of \$176,246 (2017 - \$194,086). The Company may be required to settle this potential liability in the future. The outcome of the amount of actual claims, if any, is contingent on future assessments to the Company and its investors.

PISTOL BAY MINING INC.
NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED AUGUST 31, 2018 AND 2017
(Expressed in Canadian Dollars)

14. LEGAL JUDGEMENT

On June 8, 2015, Pacific Centre Leaseholds Limited (the "Landlord") filed a civil claim against the Company and three related companies for the unpaid lease payments and assessed damages pursuant to the amended lease agreements dated June 16, 2014. The assessed damages claimed by the Landlord for the breaches of the lease agreement are \$156,424 for arrears of rent prior to termination of the lease, \$70,316 for accelerated rent for December 2014, \$52,737 for accrued rent from April 2015 to July 2015, cost on a full indemnity basis, and accruing interest on the assessed amounts. The total amount claimed is \$279,477. As at August 31, 2018 and May 31, 2018, the Company accrued \$79,506 in connection with the outstanding amounts. In the Company's opinion, it will not be liable for the other related companies portion of the amount claimed.

15. SEGMENTED INFORMATION

The Company currently operates in a single reportable operating segment, as its Subsidiary has no activities: the acquisition, exploration and development of mineral properties in Canada. All of the Company's assets and expenditures are located in Canada. Since the Company does not have any revenue producing activities, there is no segment information by revenues.

16. SUBSEQUENT EVENTS

- i. On September 5, 2018, the Company entered into an exclusivity agreement with a private Ontario company that allows Pistol Bay to undertake due diligence on the products, the intellectual property surrounding the products and the market opportunities for both the private company's foundational product, as well as new product applications containing cannabinoids. The agreement restricts the private company from negotiating for the sale or licensing of the products to third parties until November 5, 2018.
- ii. On September 14, 2018, the Company granted 475,000 stock options which are exercisable for period of five years, at a price of \$0.065 per share.
- iii. On September 20, 2018, 3,286,563 share purchase warrants issued on March 20, 2017 expired unexercised.
- iv. Subsequent to the three months ended August 31, 2018, the Company paid \$10,000 pursuant to the option agreement to acquire a 100% interest of Dixie 17-18-19 Properties.
- v. Pursuant to the option agreement to acquire a 100% interest of Dixie 3 Property, the Company issued 300,000 common shares of the Company at \$0.05 per share to the optionors in October 2018.
- vi. On October 25, 2018, the Company closed a non-brokered private placement financing for total gross proceeds of \$425,000. The Company issued 8,500,000 units at a price of \$0.05 per unit. Each unit is comprised of one common share and one transferable share purchase warrant, with each warrant entitling the holder to purchase one additional common share of the Company at a price of \$0.08 for a period of up to 18 months.

In addition, the Company paid finder's fees of \$2,000 in cash and 40,000 finder's warrants. Each finder's warrant is exercisable into a common share of the Company at \$0.05 per share for a period of up to 12 months.