

**PISTOL BAY MINING INC.**

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the three months ended

August 31, 2019 and 2018  
(with comparative audited figures as at May 31, 2019)

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, 2019.

October 30, 2019

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

	August 31, 2019 \$	May 31, 2019 \$
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash	7,286	78,848
Taxes recoverable	1,989	7,262
	9,275	86,110
Equipment (Note 4)	260	282
Exploration and Evaluation Assets (Note 5)	2,505,254	2,485,228
	2,514,789	2,571,620
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued liabilities (Notes 6,14 and 15)	389,407	415,690
Loan payable (Note 7)	131,631	61,000
Due to related parties (Note 10)	-	5,219
	521,038	481,909
<b>EQUITY</b>		
Share Capital (Note 8)	25,036,571	25,016,571
Reserves (Note 9)	1,452,506	1,414,350
Deficit	(24,495,326)	(24,341,210)
	1,993,751	2,089,711
	2,514,789	2,571,620

NATURE OF OPERATIONS AND GOING CONCERNS UNCERTAINTY (Note 1)

COMMITMENTS AND CONTINGENCIES (Notes 5 and 14)

SUBSEQUENT EVENTS (Note 17)

APPROVED BY THE BOARD OF DIRECTORS ON OCTOBER 30, 2019

ON BEHALF OF THE BOARD

<i>"Charles Desjardins"</i>	<i>"Dave Bissoondatt"</i>
Director	Director

See Accompanying Notes

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

	<b>Three months ended</b>	
	<b>August 31,</b>	<b>August 31,</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>EXPENSES</b>		
Amortization	22	33
Business development and shareholder communications	21,694	14,194
Consulting fees	60,217	112,722
Management fees (Note 10)	-	7,500
Office services and miscellaneous	15,490	25,624
Professional fees	2,375	2,005
Rent	8,784	8,571
Share-based payments (Notes 8,9 and 10)	38,156	2,643
Transfer agent and filing fees	5,275	4,358
	<b>152,013</b>	<b>177,650</b>
<b>OTHER INCOME (EXPENSES)</b>		
Interest expense (Note 7)	(1,000)	-
Taxes and interest related to flow-through shares (Note 6)	(1,103)	(1,103)
	<b>(2,103)</b>	<b>(1,103)</b>
<b>NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS) FOR THE YEAR</b>	<b>(154,116)</b>	<b>(178,753)</b>
<b>BASIC AND DILUTED EARNINGS (LOSS) PER COMMON SHARE</b>	<b>(0.00)</b>	<b>(0.01)</b>
<b>WEIGHTED AVERAGE NUMBER OF SHARES OUTSTANDING - BASIC AND DILUTED</b>	<b>50,498,657</b>	<b>24,173,822</b>

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	Amount \$	Subscription s Received \$	Warrant reserve \$	Share based payment \$	Deficit \$	
<b>Balance, May 31, 2018</b>	<b>24,173,822</b>	<b>23,625,619</b>	<b>17,500</b>	<b>606,655</b>	<b>758,915</b>	<b>(23,530,981)</b>	<b>1,477,708</b>
Subscription received	-	-	82,500	-	-	-	82,500
Fair value of options granted	-	-	-	-	2,643	-	2,643
Fair value of options cancelled and expired	-	-	-	-	(6,047)	6,047	-
Net income for the year	-	-	-	-	-	(178,753)	(178,753)
<b>Balance, August 31, 2018</b>	<b>24,173,822</b>	<b>23,625,619</b>	<b>100,000</b>	<b>606,655</b>	<b>755,511</b>	<b>(23,703,687)</b>	<b>1,384,098</b>
<b>Balance, May 31, 2019</b>	<b>50,333,822</b>	<b>25,016,571</b>	<b>-</b>	<b>607,203</b>	<b>807,147</b>	<b>(24,341,210)</b>	<b>2,089,711</b>
Shares issued for exploration and evaluation assets	500,000	20,000	-	-	-	-	20,000
Fair value of options granted	-	-	-	-	38,156	-	38,156
Net loss for the year	-	-	-	-	-	(154,116)	(154,116)
<b>Balance, August 31, 2019</b>	<b>50,833,822</b>	<b>25,036,571</b>	<b>-</b>	<b>607,203</b>	<b>845,303</b>	<b>(24,495,326)</b>	<b>1,993,751</b>

See Accompanying Notes

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

	<b>Three months ended</b>	
	<b>August 31,</b>	<b>August 31,</b>
	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
<b>CASH FLOW PROVIDED BY (USED FOR)</b>		
<b>OPERATING ACTIVITIES</b>		
Net income (loss)	(154,116)	(178,753)
Adjustments for non-cash items:		
Amortization	22	33
Interest expense	1,000	-
Flow-through tax and interest	1,103	1,103
Share-based payments	38,156	2,643
	(113,835)	(174,974)
Changes in non-cash working capital:		
Prepaid expense and deposit	-	6,875
Amounts due to related parties	(5,219)	2,625
Amounts receivable	5,273	27,465
Accounts payable and accrued liabilities	(27,386)	66,451
Net cash flow used in operating activities	(141,167)	(71,558)
<b>INVESTING ACTIVITIES</b>		
Exploration and evaluation assets	(26)	(17,941)
Net cash flow used in investing activities	(26)	(17,941)
<b>FINANCING ACTIVITIES</b>		
Loan payable	69,631	-
Subscription received	-	82,500
Net cash flows provided by financing activities	69,631	82,500
<b>INCREASE (DECREASE) IN CASH</b>	<b>(71,562)</b>	<b>(6,999)</b>
<b>CASH, BEGINNING OF THE YEAR</b>	<b>78,848</b>	<b>10,314</b>
<b>CASH, END OF THE YEAR</b>	<b>7,286</b>	<b>3,315</b>

**ADDITIONAL CASH FLOW INFORMATION (Note 11)**

See Accompanying Notes

**PISTOL BAY MINING INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED AUGUST 31, 2019 AND 2018**  
(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. The current and comparative share capital amounts already reflects the 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, 2019, 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 and Nevada, USA. 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 interim condensed 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, 2019, the Company has a working capital deficiency of \$511,763 (May 31, 2019 – \$395,799) and a cumulative deficit of \$24,457,170 (May 31, 2019 – \$24,341,210). 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, 2019 AND 2018**  
(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:

	<b>Country of incorporation</b>	<b>Percentage owned</b>
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 International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

Approval of the interim condensed consolidated financial statements

The Financial Statements of the Company for the three months ended August 31, 2019 were reviewed by the Audit Committee and approved and authorized for issue on October 30, 2019 by the Board of Directors of the Company.

**3. SIGNIFICANT ACCOUNTING POLICIES**

---

Significant accounting judgments, estimates and assumptions

The preparation of the 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:

- 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.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

---

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 payment.

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 is the Canadian dollar.

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.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

---

#### 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
--------------------	-----------------------------

#### 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.

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.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

---

#### Exploration and evaluation assets (continued)

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.

### **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.

### **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.

### **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

IFRS 9 — Financial instruments ("IFRS 9") was updated by the IASB in November 2009 and replaced part of IAS 39 - Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 addresses the classification and measurement of financial assets. The two measurement categories for financial assets include amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is recorded at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is recorded at fair value through profit or loss (FVTPL).

Requirements for financial liabilities were added in October 2010 and they largely carried forward the previous existing requirements in IAS 39, Financial Instruments — Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at FVTPL would generally be recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. On June 1, 2018, the Company adopted these amendments.

### **3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

---

#### Financial instruments and risks (continued)

Under IFRS 9, financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 contains the primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI) and FVTPL.

#### Measurement – initial recognition

All financial assets and financial liabilities are initially recorded on the Company's statement of financial position when the Company becomes a party to the contractual provisions of the instrument. All financial asset and liabilities are initially recorded at fair value, net of attributable transaction costs, except for those classified as FVTPL. Subsequent measurement of financial assets and financial liabilities depends on the classifications of such assets and liabilities.

#### Classification – financial assets

##### *Amortized cost:*

Financial assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and that the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured subsequent to initial recognition at amortized cost.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. Interest income is recognized using the effect interest method, and is recognized in Interest and other income, on the statements of comprehensive income (loss).

As at August 31, 2019, the Company did not have any financial assets classified as amortized cost.

##### *FVTOCI:*

Financial assets that are held within a business model whose objective is to hold financial assets in order to both collect contractual cash flows and selling financial assets, and that the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding

Upon initial recognition of equity securities, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate its equity securities that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the instrument; instead, it is transferred to retained earnings.

The Company currently has no financial assets designated as FVTOCI.

**PISTOL BAY MINING INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED AUGUST 31, 2019 AND 2018**  
(Expressed in Canadian Dollars)

---

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

---

*FVTPL:*

By default, all other financial assets are measured subsequently at FVTPL. The Company's cash is designated as FVTPL.

Classification – financial liabilities

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method. Financial liabilities at amortized cost include accounts payable, loans payable and due to related parties.

Financial liabilities classified FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Fair value changes on financial liabilities classified as FVTPL are recognized in the statements of loss and comprehensive loss. The Company does not have any financial liabilities at FVTPL.

The Company has no hedging arrangements and does not apply hedge accounting.

The impact on the classification and measurement of its financial instruments is set out below.

	June 1, 2018	
	IAS 39	IFRS 9
<u>Financial Asset</u>		
Cash	FVTPL	FVTPL
<u>Financial Liabilities</u>		
Accounts payable	Other financial liabilities	Amortized cost
Loans payable	Other financial liabilities	Amortized cost
Due to related parties	Other financial liabilities	Amortized cost

There was no material impact on the implementation of changes in the Company's Financial Statements.

**New accounting standards and amendments adopted during the period**

*New standard IFRS 16, "Leases"*

IFRS 16 is effective for accounting periods beginning on or after January 1, 2019. This standard sets out a new model for lease accounting. The Company is currently evaluating the potential impact of these amendments on the Company's consolidated financial statements.

**PISTOL BAY MINING INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED AUGUST 31, 2019 AND 2018**  
(Expressed in Canadian Dollars)

**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Accounting standards issued but not yet effective**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended May 31, 2019, and have not been applied in preparing the Interim Financial Statements as at and for the period August 31, 2019.

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”) were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after January 1, 2020. Earlier adoption is permitted.

IFRIC 23 – Uncertainty over Income Tax Treatments – clarifies the accounting for uncertainties in income taxes. This Interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. In such a circumstance, an entity shall recognise and measure its current or deferred tax asset or liability applying the requirements in IAS 12 based on taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates determined applying this Interpretation.

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

**4. EQUIPMENT**

	August 31, 2019			May 31, 2019		
	Cost	Accumulated Amortization	Net	Cost	Accumulated Amortization	Net
	\$	\$	\$	\$	\$	\$
Computer	41,370	41,110	260	41,370	41,088	282

**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).

## **5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)**

---

### **a) Dixie Property, Ontario (continued)**

- 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) to the optionors on or before the third-year anniversary of Exchange approval (July 3, 2018).
- Pay \$30,000 (paid \$10,000) 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.

The Company is currently negotiating an extension for the outstanding \$20,000 cash payment which was due on July 3, 2019 but remains unpaid as of August 31, 2019.

### **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 \$11,000) and issue 300,000 common shares (issued on October 24, 2018 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 (paid \$2,000) 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.

The Company is currently negotiating an extension for the outstanding \$5,000 cash payment which was due on October 7, 2018 and an \$18,000 cash payment which was due on October 7, 2019. A total of \$23,000 remains outstanding as of August 31, 2019.

## **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 (issued on January 30, 2019 at a fair value of \$20,000) or before the second-year anniversary of the closing date (January 11, 2019). On February 2, 2019, the agreement was amended regarding the cash payments of \$50,000. The \$50,000 payment is replaced with:
  - Pay \$10,000 by February 22, 2019 (paid)
  - Issue 500,000 common shares on or before February 22, 2019 (issued on February 21, 2019 at a fair value of \$25,000)
  - Pay \$15,000 in cash or common shares by August 1, 2019 (amended, see note 17)
- Pay \$50,000 and issue 500,000 common shares (subsequently issued 250,000 shares on October 01, 2019) 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 three months ended August 31, 2019, the Company paid \$Nil (2019 - \$Nil) for annual advance royalty to the optionor.

### **c) Joy North Property, Ontario**

On February 9, 2017 and amended on September 4, 2019, 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.

## **5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)**

---

### **c) Joy North Property, Ontario (continued)**

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 optionor 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 optionor on or before the first-year anniversary of the approval date (February 21, 2018)
- Issue 50,000 common shares (issued on April 16, 2019 at a fair value of \$3,000) to the optionor on or before the second-year anniversary of the approval date (February 21, 2019)
- Issue 75,000 common shares to the optionor 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 optionor 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 score of BTW or larger size by February 21, 2022, 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.

In connection with the September 4, 2019 amendment, the Company is required to issue a further 10,000 common shares to the optionor upon approval of the amendment by the Exchange (issued on September 12, 2019) and 100,000 on or before one year from the approval of the amendment by the Exchange.

### **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 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 (outstanding) and issue 300,000 common shares (issued on April 16, 2019 at a fair value of \$18,000) to the optionors on or before the second anniversary of the approval date (April 27, 2019)

## **5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)**

---

### **d) Lucky 7 Property, Ontario (continued)**

- 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.

The Company is currently negotiating an extension for the outstanding \$20,000 cash payment which was due on April 27, 2019 and remains unpaid as of August 31, 2019.

### **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 (outstanding) and issue 100,000 common shares (issued on January 30, 2019 at a fair value of \$4,000) 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.

The Company is currently negotiating an extension for the outstanding \$16,000 cash payment which was due on January 30, 2019 and remains unpaid as of August 31, 2019.

### **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 was recorded as a gain on the interim condensed consolidated statements of comprehensive income (loss) during the three months ended August 31, 2018.

## **5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)**

---

### **g) Vanadium Project, Nevada, USA**

On April 3, 2019, the Company entered into an option agreement to acquire a 100% interest in the 49 mineral claims located in Clark County Nevada, USA.

Pursuant to the option agreement to acquire a 100% interest in the property, the Company is required to pay a total of \$150,000 USD upon Exchange approval and issue an aggregate 8,000,000 common shares as follows:

- \$15,000 USD on the date of execution of the agreement (April 3, 2019) (outstanding).
- \$50,000 USD upon Exchange approval (April 16, 2019) (outstanding).
- \$100,000 USD six months post Exchange approval (October 16, 2019)
- 8,000,000 common shares (issued on April 22, 2019 at a fair value of \$480,000) on the five dates following the approval (April 20, 2019)
- A 2% Net Milling Returns Royalty on the Properties (the "Royalty"); including the right of Pistol Bay Mining Inc. to purchase one and one half (1.5%) of the Royalty at any time for USD \$1,000,000.

Subsequent to Exchange approval, the Company paid a finder's fee of 800,000 common shares (issued on April 22, 2019 at a fair value of \$48,000).

The Company is currently negotiating an extension for the outstanding \$65,000 USD cash payment which was due upon execution of the agreement and Exchange approval and remains unpaid as of August 31, 2019.

### **i) Cabin Bay Area, Red Lake, Ontario**

On July 26, 2019, the Company entered into an option agreement to acquire a 100% interest in the 104 mining cells located in Cabin Bay Area, Red Lake Mining Division, Ontario. Pursuant to the option agreement to acquire 100% interest in the property, subject to Exchange approval, the Company is required to pay a total of \$82,500 USD and upon Exchange approval and issue an aggregate of 3,000,000 common shares as follows:

- \$15,000 (outstanding) and issue 500,000 common shares (issued on August 01, 2019 at a fair value of \$20,000) upon the Exchange approval (August 01, 2019).
- \$17,500 and issue 1,000,000 common shares on the first anniversary of the Exchange approval (July 26, 2020).
- \$20,000 and issue 1,000,000 common shares on the second anniversary of the Exchange approval (July 26, 2021).
- \$30,000 and issue 1,000,000 common shares on the third anniversary of the Exchange approval (July 26, 2022).

The Optionee shall have the right at any time to purchase one-half (1/2) of the NSR Royalty, being one percent (1%), from the Optionor in consideration of the payment to the Optionor of \$1,000,000, thereby leaving the Optionor with a one percent (1%) NSR Royalty.

**PISTOL BAY MINING INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED AUGUST 31, 2019 AND 2018**  
(Expressed in Canadian Dollars)

**5. EXPLORATION AND EVALUATION ASSETS (CONTINUED)**

As at August 31, 2019, and May 31, 2019, 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 \$	Red Lake, Cabin Bay Property, Ontario \$	Vanadium Project, Nevada, USA \$	Total \$
<b>BALANCE MAY 31, 2018</b>	450,751	1,071,977	80,684	123,886	47,000	-	-	1,774,298
<b>ACQUISITION COSTS:</b>								
Cash	40,000	10,000	-	-	-	-	-	50,000
Shares	15,000	45,000	3,000	18,000	4,000	-	528,000	613,000
Total acquisition costs	55,000	55,000	3,000	18,000	4,000	-	528,000	663,000
<b>EXPLORATION COSTS:</b>								
Advancement	(5,200)	-	-	-	-	-	-	(5,200)
Supplies	-	133	-	-	-	-	-	133
Ground work	403	30,791	-	836	-	-	-	32,030
Consulting expenses	-	1,325	265	177	-	-	-	1,767
Storage	19,200	-	-	-	-	-	-	19,200
Total exploration costs	14,403	32,249	265	1,013	-	-	-	47,930
<b>BALANCE MAY 31, 2019</b>	520,154	1,159,226	83,949	142,899	51,000	-	528,000	2,485,228
<b>ACQUISITION COSTS:</b>								
Cash	-	-	-	-	-	-	-	-
Shares	-	-	-	-	-	20,000	-	20,000
Total acquisition costs	-	-	-	-	-	20,000	-	20,000
<b>EXPLORATION COSTS:</b>								
Ground work	-	24	-	2	-	-	-	26
Total exploration costs	-	24	-	2	-	-	-	26
<b>BALANCE AUGUST 31, 2019</b>	520,154	1,159,250	83,949	142,901	51,000	20,000	528,000	2,505,254
<b>TOTAL COSTS:</b>								
Cash	58,000	60,000	3,000	12,000	-	-	-	133,000
Shares	139,000	105,000	6,850	46,000	4,000	20,000	528,000	848,850
Exploration costs	323,154	994,250	74,099	84,901	47,000	-	-	1,523,404
<b>BALANCE AUGUST 31, 2019</b>	520,154	1,159,250	83,949	142,901	51,000	20,000	528,000	2,505,254

**PISTOL BAY MINING INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED AUGUST 31, 2019 AND 2018**  
(Expressed in Canadian Dollars)

**6. ACCOUNTS PAYABLES AND ACCRUED LIABILITIES**

	August 31, 2019	May 31, 2019
	\$	\$
Accounts payable	251,939	286,794
Flow through tax liabilities	30,510	23,041
Penalties assessed <sup>(1)</sup>	106,958	105,855
	<u>389,407</u>	<u>415,690</u>

During the three months ended August 31, 2019, the Company paid \$Nil (2019 - \$Nil) to the Canada Revenue Agency for Flow through tax liabilities. In addition, the Company recognized a write-down of accounts payable of \$Nil (2019 - \$Nil) for the accrued amounts related to the indemnification on the unfulfilled commitments (Note 14).

<sup>(1)</sup> 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, 2019 and 2018, the Company has accrued interest and penalties of \$1,103 per period towards the amounts owing.

**7. LOANS PAYABLE**

During the three months ended August 31, 2019, the Company received a loan of \$52,131. The loan is unsecured, non-interest bearing and due on demand with no set terms of repayment. As at August 31, 2019, the balance outstanding is \$52,131.

During the year ended May 31, 2019, the Company received a loan of \$25,000. The principal amount plus an additional \$5,000 was due and payable on June 19, 2019. If the full amount is not paid by June 19, 2019, an additional \$1,000 is due on the first day after June 19, 2019 and each 30 days thereafter until all amounts are fully paid. During the year ended May 31, 2019, the Company accrued interest expense of \$5,000 on the loan and during the period ended August 31, 2019, the Company accrued interest expense of \$1,000 and the balance outstanding as at August 31, 2019 is \$31,000.

During the year ended May 31, 2019, the Company received a loan of \$21,000. The loan is unsecured, non-interest bearing and due on demand with no set terms of repayment. As at August 31, 2019, the balance outstanding is \$21,000.

During the year ended May 31, 2019, the Company received a loan of \$10,000. The loan is unsecured, non-interest bearing and due on demand with no set terms of repayment. As at August 31, 2019, the balance outstanding is \$10,000.

During the period ended August 31, 2019, the Company received a loan of \$17,500. The loan is unsecured, non-interest bearing and due on demand with no set terms of repayment. As at August 31, 2019, the balance outstanding is \$17,500.

**PISTOL BAY MINING INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED AUGUST 31, 2019 AND 2018**  
(Expressed in Canadian Dollars)

---

## **8. 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, 2019

- i. On August 01, 2019, the Company issued 500,000 common shares valued at \$20,000 for the acquisition of exploration and evaluation assets (note 5).

### During the year ended May 31, 2019:

- 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. On October 24, 2018, the Company issued 300,000 common shares valued at \$15,000 for the acquisition of exploration and evaluation assets.
- iii. On October 25, 2018, the Company closed its first tranche of a non-brokered private placement financing for total gross proceeds of \$425,000. The Company issued 8,500,000 units (the "Units") at a price of \$0.05 per Unit. Each Unit is comprised of one common share and one transferable warrant, with each warrant entitling the holder to purchase one additional common share of the Company for a period of up to 18 months at a price of \$0.06 (amended from \$0.08 to \$0.06 on February 19, 2019 after Exchange approval).

In addition, the Company paid \$2,000 finders' fees and issued 40,000 finders' warrants (the "Finders Warrants"). Each Finders Warrant is exercisable into one common share for a period of up to 12 months at a price of \$0.05. The 40,000 Finders Warrants have an estimated fair value of \$548, which have been included in warrant reserve. The fair value of the warrants was estimated using the Black-Scholes option pricing model with the following assumptions: expected life 1 year, volatility 149% risk-free rate 2.27%, dividend yield 0%.

- iv. On January 30, 2019, the Company issued 600,000 common shares valued at \$24,000 for the acquisition of exploration and evaluation assets.
- v. On February 21, 2019, the Company issued 500,000 common shares valued at \$25,000 for the acquisition of exploration and evaluation assets.
- vi. On April 16, 2019, the Company issued 8,350,000 common shares valued at \$501,000 for the acquisition of exploration and evaluation assets.
- vii. On April 22, 2019, the Company issued 800,000 common shares valued at \$48,000 as the finder's fees for the acquisition of exploration and evaluation assets.
- viii. On May 28, 2019, the Company issued 7,110,000 units (the "Units") at a price of \$0.05 per Unit for gross proceeds of \$355,500. Each Unit is comprised of one common share and one transferable warrant, with each warrant entitling the holder to purchase one additional common share of the Company for a period of up to eighteen months at a price of \$0.06.

## **8. SHARE CAPITAL (CONTINUED)**

---

### **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.

#### During the three months ended August 31, 2019:

- i. During the three months ended August 31, 2019, the Company granted 1,750,000 share options, which are exercisable for a period of five years, at a price of \$0.05 per share. The fair value of \$38,156 was estimated using the Black-Scholes pricing model with estimated, stock price of \$0.03, volatility 173.81%, risk-free rate 2.26%, dividend yield 0%, and expected list of 2 years.

#### During the year ended May 31, 2019:

- i. During the year ended May 31, 2019, 77,500 share options were cancelled unexercised, resulting in the transfer of \$18,620 from share-based payment reserve to deficit.
- ii. During the year ended May 31, 2019, 75,000 of the 100,000 share options granted on March 9, 2018 to a consultant were fully vested, resulting in \$3,807 of the fair value of options being expensed with a corresponding credit to share-based payment reserve.
- iii. On September 14, 2018, the Company granted 475,000 share options, which are exercisable for a period of five years, at a price of \$0.065 per share. The fair value of \$27,211 was estimated using the Black-Scholes pricing model with estimated, stock price of \$0.06, volatility 178.45%, risk-free rate 2.26%, dividend yield 0%, and expected life of 5 years.
- iv. On November 8, 2018, the Company granted 750,000 share options, which are exercisable for a period of five years, at a price of \$0.05 per share. The fair value of \$35,834 was estimated using the Black-Scholes pricing model with estimated, stock price of \$0.05, volatility 177.42%, risk-free rate 2.46%, dividend yield 0%, and expected life of 5 years.
- v. 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, 2019 AND 2018**  
(Expressed in Canadian Dollars)

**8. SHARE CAPITAL (CONTINUED)**

**Share Options (continued)**

A summary of share options outstanding is as follows:

	<b>Outstanding and exercisable</b>	<b>Weighted Average Exercise Price (\$)</b>	<b>Weighted Average Years to Expiry</b>
Balance at May 31, 2018	1,990,000	0.16	2.80
Granted	1,225,000	0.05	
Expired and Cancelled	(77,500)	-	
Balance at May 31, 2019	3,137,500	0.11	2.83
Granted	1,750,000	-	
Balance at August 31, 2019	4,887,500	0.09	2.33

As at August 31, 2019, the Company had share purchase options outstanding to directors, officers, employees and consultants as follows:

<b>Outstanding and Exercisable</b>	<b>Exercise Price</b>	<b>Expiry Date</b>
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
475,000	\$0.065	September 14, 2023
750,000	\$0.05	November 8, 2023
1,750,000	\$0.05	July 21, 2019
4,887,500		

**Warrants**

During the three months ended August 31, 2019

No warrant was issued nor exercised.

During the year ended May 31, 2019

During the year ended May 31, 2019, 10,028,062 warrants expired unexercised.

**PISTOL BAY MINING INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED AUGUST 31, 2019 AND 2018**  
(Expressed in Canadian Dollars)

**8. SHARE CAPITAL (CONTINUED)**

**Warrants (continued)**

On October 25, 2018, the Company granted 8,500,000 warrants to investors and 40,000 finders' warrants to agents for the private placement closed on October 25, 2018.

On February 19, 2019, the Exchange approved the amendment in warrant price for 8,500,000 warrants, granted on October 25, 2018 and expires on April 25, 2020. The exercise price is changed from \$0.08 to \$0.06.

On May 28, 2019, the Company granted 7,110,000 share warrants, exercisable for \$0.06 per share warrant, to investors, which will expire on November 28, 2020.

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

Outstanding and Exercisable	Exercise price \$	Expiry Date	Weighted average life (in years)
8,500,000 <sup>[1]</sup>	0.06	April 25, 2020	
40,000	0.05	October 25, 2019	
7,110,000	0.06	November 28, 2020	
<b>15,650,000</b>			<b>0.92</b>

<sup>[1]</sup> 8,500,000 share warrants exercise price was reduced from \$0.08 to \$0.06 pursuant to Exchange approval on February 19, 2019.

Details of warrants outstanding as at August 31, 2019 are as follows:

	Outstanding and exercisable	Weighted average exercise price \$	Weighted average number of year to expiry
Balance at May 31, 2018	10,028,062	0.22	0.28
Granted	15,650,000	0.06	
Expired	(10,028,062)	0.22	
<b>Balance at May 31 and August 31, 2019</b>	<b>15,650,000</b>	<b>0.06</b>	<b>0.92</b>

**PISTOL BAY MINING INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED AUGUST 31, 2019 AND 2018**  
(Expressed in Canadian Dollars)

**9. 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, 2018	758,915
Granted	63,045
Fair Value of options vested for the options granted on March 9, 2018	3,807
Fair value of share options expired and cancelled	(18,620)
Balance, May 31, 2019	807,147
Granted	38,156
Fair value of share options expired and cancelled	-
Balance, August 31, 2019	845,303

**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, 2018 and 2017	606,656
Agent warrants granted	547
Balance, May 31 and August 31, 2019	607,203

**10. 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, 2019	May 31, 2019
	\$	\$
Amount due to former CFO	-	5,219
	-	5,219

**PISTOL BAY MINING INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED AUGUST 31, 2019 AND 2018**  
(Expressed in Canadian Dollars)

**10. RELATED PARTY TRANSACTIONS (CONTINUED)**

During the three months ended August 31, 2019 and 2018, the Company incurred the following amounts through transactions with directors and officers of the Company:

	August 31, 2019	August 31, 2018
	- \$ -	- \$ -
Management fees	-	7,500
Consulting fees	7,500	6,000
	7,500	13,500

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, 2019 and 2018, in Company paid or accrued \$7,500 to a director of the Company (2018 - \$6,000) in consulting fees.

No share-based payment compensation was granted to directors and officers of the company during the three months ended August 31, 2019.

**11. ADDITIONAL CASH FLOW INFORMATION**

During the three months ended August 31, 2019 and 2018, the Company incurred non-cash financing and investing activities as follows:

	For the year ended	
	August 31, 2019	August 31, 2018
	\$	\$
Non-cash financing activities:		
Fair value of options cancelled and expired	-	(6,047)
Non-cash investing activities:		
Shares issued for exploration and evaluations assets	20,000	-

**12. 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.

## **12. 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.

## **13. FINANCIAL INSTRUMENTS AND RISKS**

---

The Company's financial instruments are comprised of cash, accounts payable, loans and due to related parties. The carrying value of cash and cash equivalents as presented in the statement of financial position is a reasonable estimate of its fair value.

Financial assets and liabilities measured at fair value on a recurring basis are classified in their entirety based on the lowest level of input that is significant to their fair value measurement. Certain non-financial assets and liabilities may also be measured at fair value on a non-recurring basis. There are three levels of the fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with Level 1 inputs having the highest priority. The levels and the valuation techniques used to value financial assets and liabilities are described below.

### *Level 1 - Quoted Prices in Active Markets for Identical Assets*

Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Cash is valued using quoted market prices in active markets. Accordingly, it is included in Level 1 of the fair value hierarchy.

### *Level 2 - Significant Other Observable Inputs*

Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability. There are no items in Level 2 of the fair value hierarchy.

### *Level 3 - Significant Unobservable Inputs*

Unobservable (supported by little or no market activity) prices. There are no items in Level 3 of the fair value hierarchy.

### 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.

**PISTOL BAY MINING INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED AUGUST 31, 2019 AND 2018**  
(Expressed in Canadian Dollars)

**13. FINANCIAL INSTRUMENTS AND RISKS (CONTINUED)**

As at August 31, 2019 and 2018, the Company's financial instruments measured at fair value are as follows:

	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
August 31, 2019				
Cash	7,286	-	-	7,286
May 31, 2019				
Cash	78,848	-	-	78,848

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. This risk is minimized by holding the investments in large Canadian financial institutions. The Company has no accounts receivable exposure.

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.

d) Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its financial obligations as they come due. As at August 31, 2019, the Company manages this risk by monitoring its working capital to ensure its expenditures will not exceed available resources. As at August 31, 2019, the Company had cash of \$7,286 (2019 - \$78,848) and a working capital deficit of \$511,763 (2019 - \$395,799). The Company may not be able to settle accounts payable of \$389,407 (2019 - \$415,690) and loan payable of \$131,631 (2019 - \$61,000) which fall due for payment within twelve months of the statement of financial position date.

e) Currency risk

Currency risk is the risk from fluctuations in foreign exchange rates and the degree of volatility of these rates. At May 31, 2019, 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.

## **14. COMMITMENTS AND CONTINGENCIES**

---

### 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 amounts 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. The Company may be required to settle this potential liability in the future. The outcome of the amounts of actual claims, if any, is contingent on future assessments to the Company and its investors.

### Contingencies

From time to time, the Company is involved in litigation in the normal course of its business. The outcome of ongoing litigation is undeterminable and no amount of loss or gain resulting from ongoing litigation can be reasonably estimated other than those already disclosed in these Financial Statements. Management does not believe that the impact of any outstanding lawsuits will have a significant impact on its Financial Statements.

## **15. 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 May 31, 2019 and May 31, 2018, the Company has 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.

**PISTOL BAY MINING INC.**  
**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**THREE MONTHS ENDED AUGUST 31, 2019 AND 2018**  
(Expressed in Canadian Dollars)

---

**16. 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.

**17. SUBSEQUENT EVENTS**

---

- 1) The Company entered into an agreement with Belmont Resources to option out 65% right and title in certain claims in Red Lake, Ontario. Belmont Resources is required to pay a total of \$140,000 in cash and issue an aggregate of 3,500,000 common shares to the Company over a three-year period. On October 22, 2019, the Company announced that it will not proceed with this agreement.
- 2) The Company and the optionor agreed to extend the work commitments under the Joy North option agreement dated February 9, 2019 from three to five years. In consideration of the foregoing amendment, the Company shall issue 100,000 common shares, upon Exchange approval, and a further 100,000 common shares on or before the date that is one (1) year anniversary of Exchange approval.
- 3) The Company entered into an agreement with 1544230 Ontario Inc. to acquire 100% right, title, and interest in the North Pakwash Lake Area, Ontario. The Company has agreed to pay a total of \$45,000 and issue 500,000 common shares over a period of three years.
- 4) The Company reported that it has arranged a private placement of up to 25,000,000 units at a price of \$0.02 per unit for total gross proceeds of up to \$500,000. Each unit consists of one common share and one-half of one transferable warrant, with each full warrant entitling the holder to acquire an additional common share of the Company at a price of \$0.05 for a period of twelve (12) months from the date of issuance. The private placement is subject to the acceptance of the Exchange.
- 5) On October 01, 2019, the agreement for AurCrest was amended regarding the cash payment of the remaining \$15,000 due last August 01, 2019. The \$15,000 payment was replaced with:
  - o Issuance of 300,000 common shares on or before October 16, 2019 (issued on October 01, 2019)
  - o Payment \$7,500 in cash on or before October 16, 2019 (paid on October 18, 2019)