

PANCONTINENTAL RESOURCES CORPORATION
(formerly, Pancontinental Gold Corporation)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

(unaudited)

EXPRESSED IN CANADIAN DOLLARS

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited condensed interim consolidated financial statements of Pancontinental Resources Corporation (the "Company") have been prepared by and are the responsibility of the Company's management. The Company's independent auditor, RSM Canada LLP, has not performed a review of these unaudited condensed interim consolidated financial statements, in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditor.

PANCONTINENTAL RESOURCES CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(expressed in Canadian dollars)

	September 30 2018 <i>(unaudited)</i>	December 31 2017 <i>(audited)</i>
ASSETS		
Current		
Cash	\$ 381,919	\$ 61,180
Royalty revenue receivable (note 16)	-	22,002
Sales tax receivable	60,067	7,734
Prepaid expenses	63,738	2,217
	505,724	93,133
Investment in Tortuga Resources Inc. (note 7)	1	1
	\$ 505,725	\$ 93,134
LIABILITIES		
Current		
Accounts payable and accrued liabilities (notes 8,10,14)	\$ 205,636	\$ 297,722
Loans from related parties (note 14)	129,190	165,000
Flow-through share premium (notes 9,10)	81,332	-
	416,158	462,722
EQUITY		
Capital stock (note 10)	18,929,435	17,201,243
Contributed surplus	4,206,969	3,481,833
Warrants (note 11)	354,193	593,734
Deficit	(23,401,030)	(21,646,398)
	89,567	(369,588)
	\$ 505,725	\$ 93,134

Nature of operations and going concern (note 1)

Subsequent event (note 19)

See accompanying notes.

PANCONTINENTAL RESOURCES CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS

(unaudited, expressed in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Expenses				
Corporate and administrative (notes 12, 14)	\$ 124,045	\$ 80,094	\$ 372,741	\$ 373,451
Exploration and evaluation (note 13)	553,573	20,134	1,154,424	467,832
Share-based payments (notes 10,14)	3,844	-	221,912	27,050
Foreign exchange loss (gain)	351	(4,040)	5,555	(8,756)
	681,813	96,188	1,754,632	859,577
Net loss and comprehensive loss	\$ (681,813)	\$ (96,188)	\$ (1,754,632)	\$ (859,577)
Loss per share - Basic and diluted (note 17)	\$ (0.005)	\$ (0.001)	\$ (0.014)	\$ (0.009)
Weighted average number of common shares outstanding - Basic and diluted	141,542,854	99,510,354	128,302,903	99,510,354

See accompanying notes.

PANCONTINENTAL RESOURCES CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(unaudited, expressed in Canadian dollars)

	Capital stock	Contributed surplus	Warrants	Deficit	Total
Balance, December 31, 2016	\$ 17,107,216	\$ 3,454,783	\$ 503,224	\$ (20,640,856)	\$ 424,367
Share-based payments (note 10)	-	27,050	-	-	27,050
Net loss for the period	-	-	-	(859,577)	(859,577)
Balance, September 30, 2017	17,107,216	3,481,833	503,224	(21,500,433)	(408,160)
Units issued by private placement (notes 10,11)	100,990	-	90,510	-	191,500
Share issuance costs	(6,963)	-	-	-	(6,963)
Net loss for the period	-	-	-	(145,965)	(145,965)
Balance, December 31, 2017	17,201,243	3,481,833	593,734	(21,646,398)	(369,588)
Units issued by private placement (notes 10,11)	736,817	-	263,683	-	1,000,500
Flow-through share private placement (note 10)	975,990	-	-	-	975,990
Flow-through share premium (notes 9,10)	(81,332)	-	-	-	(81,332)
Shares issued for mineral properties (note 10)	39,500	-	-	-	39,500
Shares issued for debt (notes 10,14)	78,820	-	-	-	78,820
Share issuance costs	(21,603)	-	-	-	(21,603)
Warrants expired	-	503,224	(503,224)	-	-
Share-based payments (notes 10, 14)	-	221,912	-	-	221,912
Net loss for the period	-	-	-	(1,754,632)	(1,754,632)
Balance, September 30, 2018	\$ 18,929,435	\$ 4,206,969	\$ 354,193	\$ (23,401,030)	\$ 89,567

See accompanying notes.

PANCONTINENTAL RESOURCES CORPORATION

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, expressed in Canadian dollars)

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Operating activities				
Net loss for the period	\$ (681,813)	\$ (96,188)	\$ (1,754,632)	\$ (859,577)
Adjustments to reconcile loss to net cash used in operating activities:				
Share-based payments	3,844	-	221,912	27,050
Shares issued for mineral property	-	-	39,500	-
Unrealized foreign exchange	(1,208)	10,506	(19,686)	21,760
	(679,177)	(85,682)	(1,512,906)	(810,767)
Net changes in non-cash working capital items:				
Royalty revenue receivable	-	-	22,451	50,000
Sales tax receivable	(2,719)	5,599	(52,861)	3,653
Prepaid expenses	47,552	14,536	(61,298)	9,283
Accounts payable and accrued liabilities	37,214	54,937	5,965	101,704
	(597,130)	(10,610)	(1,598,649)	(646,127)
Financing activities				
Related party loan advances	-	3,366	12,940	38,500
Related party loan repayments	-	-	(48,750)	-
Units issued by private placement	-	-	1,000,500	-
Flow-through share private placement	-	-	975,990	-
Share issuance costs	-	-	(21,603)	-
	-	3,366	1,919,077	38,500
Net change in cash	(597,130)	(7,244)	320,428	(607,627)
Cash, beginning of period	979,362	18,260	61,180	630,676
Effect of exchange rate changes on cash	(313)	(2,846)	311	(14,879)
Cash, end of period	\$ 381,919	\$ 8,170	\$ 381,919	\$ 8,170

Supplemental disclosure

Shares issued on settlement of debt	\$ -	\$ -	\$ 78,820	\$ -
Shares issued for mineral properties	\$ -	\$ -	\$ 39,500	\$ -

See accompanying notes.

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

1. NATURE OF OPERATIONS AND GOING CONCERN

Pancontinental Resources Corporation, formerly Pancontinental Gold Corporation, (the "Company") is an exploration stage company involved in the business of acquiring, exploring and developing mineral properties. The name of the Company was changed on July 3, 2018. The address of the Company's registered office is 365 Bay Street, Suite 400, Toronto, Ontario, M5H 2V1.

Going Concern

The business of exploration, development and mining of minerals involves a high degree of risk and there can be no assurances that future exploration activities will result in the discovery of economically recoverable mineral deposits. The success and continuation of the Company as a going concern is dependent upon the Company's ability to arrange financing, which in part, depends on prevailing market conditions, acquiring or discovering economically viable mineral properties or deposits, exploration success and securing title and beneficial interest in its properties.

Further funds will be required for the Company to continue as a going concern and fund its activities. The Company has not produced revenues from its exploration activities and does not have a regular source of cash flow. There can be no assurance that the Company will be able to obtain sufficient financing in the future or at favourable terms.

As at September 30, 2018, the Company has: an accumulated deficit of \$23,401,030 (December 31, 2017 - \$21,646,398); a working capital surplus of \$89,566 (December 31, 2017 - \$369,589 deficit); and, incurred losses for the current nine month period of \$1,754,632 (September 30, 2017 - \$859,577).

These condensed interim consolidated financial statements have been prepared using accounting principles applicable to a going concern, which assume that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. However, due to uncertainties surrounding a number of factors, such as, but not limited to, the ability to raise additional funds, exploration results, prices of underlying commodities, investor sentiment and financial market conditions, it is not possible to predict if this assumption will prove to be accurate. These factors indicate the existence of material uncertainties that cast significant doubt about the Company's ability to continue as a going concern.

2. STATEMENT OF COMPLIANCE AND BASIS OF PREPARATION

Statement of compliance

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting, of the International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB").

Basis of presentation and principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries: Palmetto Mining Corporation ("Palmetto"), a United States company; and, Maya Gold Corporation S.A. de C.V., an inactive Honduras company. All significant inter-company transactions and balances have been eliminated upon consolidation.

These financial statements are presented in Canadian dollars, which is also the functional currency of the Company. The functional currency of Palmetto is the Canadian dollar.

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

STATEMENT OF COMPLIANCE AND BASIS OF PRESENTATION (continued)

These consolidated financial statements are prepared using the historical cost basis, except where certain financial instruments are classified as fair value through profit and loss.

These financial statements do not include all of the disclosure required in annual financial statements and should be read in conjunction with the Company's audited 2017 annual consolidated financial statements. These interim financial statements are not necessarily indicative of the results that may be anticipated for the entire year.

3. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies, as described in Note 3, Significant Accounting Policies, of the Company's audited annual consolidated financial statements for the year ended December 31, 2017, have been applied consistently to all periods presented in these condensed interim consolidated financial statements, unless otherwise noted. During 2018 the Company adopted the following policies:

IFRS 9 – Financial Instruments

The Company adopted IFRS 9 *Financial Instruments*, effective January 1, 2018, which supersedes IAS 39, *Financial Instruments: recognition and measurement* (IAS 39). IFRS 9 includes revised guidance on the classification and measurement of financial instruments, new guidance for measuring impairment on financial assets, and new hedge accounting guidance.

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 three primary measurement categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVTOCI), and fair value through profit and loss (FVTPL).

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at FVTPL:

- It is held within a business model whose objective is to hold the financial asset to collect the contractual cash flows associated with the financial asset instead of selling the financial asset for a profit or loss;
- Its contractual terms give rise to cash flows that are solely payments of principal and interest.

Where financial assets are measured at fair value, gains and losses are either recognized entirely in profit or loss (FVTPL), or recognized in other comprehensive income (fair value through other comprehensive income, FVTOCI).

For debt instruments, the FVTOCI classification is mandatory for certain assets unless, the fair value option is elected and for equity investments, the FVTOCI classification is an election. Furthermore, the requirements for reclassifying gains or losses recognized in other comprehensive income are different for debt instruments and equity investments.

The classification of a financial asset is made at the time it is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument. If certain conditions are met, the classification of an asset may subsequently need to be reclassified.

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

SIGNIFICANT ACCOUNTING POLICIES (continued)

A debt instrument that meets both the business model test and cash flow characteristics test must be measured at amortized cost (net of any write down for impairment) unless the asset is designated at FVTPL under the fair value option.

Below is a summary showing the classification and measurement bases of the Company's financial instruments as at January 1, 2018 as a result of adopting IFRS 9 (along with a comparison to IAS 39). There was no material impact on the Company's financial statements from the adoption of IFRS 9.

Financial instrument	IAS 39	IFRS 9
Cash	Fair value through profit or loss	Fair value through profit or loss
Royalty revenue receivable	Loans and receivables	Amortized cost
Investment in Tortuga Resources Inc.	Available for sale	Fair value through profit or loss
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost
Loans from related parties	Other financial liabilities	Amortized cost

IFRS 15 – Revenue from Contracts with Customers

IFRS 15, replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue*, IFRIC 13 – *Customer Loyalty Programmes*, IFRIC 15 – *Agreements for the Construction of Real Estate*, IFRIC 18 – *Transfer of Assets from Customers*, and SIC 31 *Revenue – Barter Transactions Involving Advertising Services*. IFRS 15 clarifies how an entity recognizes revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The Company adopted IFRS 15, effective January 1, 2018, resulting in no impact on its consolidated financial statements.

Flow-Through Shares

The Company will, from time to time, issue flow-through common shares to finance a portion of its Canadian exploration programs. Pursuant to the terms of the flow-through share subscription agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors, subject to a renoucement process. Renoucement may occur prospectively (the flow-through shares are issued, renoucement then occurs and eligible expenditures are incurred subsequently) or retrospectively (the flow-through are issued, eligible expenditures are then incurred and renoucement occurs subsequently). On issuance, the Company bifurcates the flow-through share into (1) a flow-through share premium, equal to the estimated premium, if any, that investors pay for the flow-through feature, which is recognized as a liability, and (2) share capital. If the renoucement is prospective, the obligation is fulfilled when eligible expenditures are incurred. The Company follows the retrospective approach, where the obligation to renounce is fulfilled when the paperwork to renounce is filed. Once the obligation is fulfilled, the liability is reduced and the balance is charged to the statement of operations and comprehensive income (loss).

Proceeds received from the issuance of flow-through shares are to be spent on Canadian resource property exploration expenditures prior to the end of calendar year following the year of issuance. The portion of the proceeds expended is described in Note 9.

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 Government of Canada flow-through regulations. When applicable, this tax is accrued as an expense until paid.

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

SIGNIFICANT ACCOUNTING POLICIES (continued)

At the time of initial recognition, a taxable temporary difference exists and neither accounting profit nor taxable profit is affected, therefore the initial recognition exemption for deferred income taxes applies.

4. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

The preparation of consolidated financial statements in compliance with IFRS requires the Company's management to make certain estimates and judgements about future events they consider reasonable and realistic. Despite regular reviews of these estimates and judgements, based in particular on historical achievements and future expectations, facts and circumstances may result in changes in these estimates and judgements which could impact the reported amount of the Company's assets, liabilities, equity and earnings.

Significant estimates relate to the: measurement of share-based payments and warrant valuation; impairment of investments; measurement of deferred tax assets and liabilities; and, establishment of provisions. Judgement is used in the choice of accounting policy for exploration and evaluation, measurement of the flow-through share premium and determination of the functional currency for the Company and its subsidiaries.

5. FUTURE CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The following standard has been issued but is not yet effective:

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16 *Leases*, which requires lessees to recognize assets and liabilities for most leases. Application of the standard is mandatory for annual reporting periods beginning on or after January 1, 2019, although early adoption is permitted, provided the new revenue standard, IFRS 15, has been applied or is applied at the same time as IFRS 16.

The Company is evaluating the impact of the above standard on its financial performance, position and financial statements disclosures. Based on the Company's current accounting treatment of assets, liabilities, revenue and expenses, no significant impact is expected.

6. CAPITAL MANAGEMENT

The Company's objectives when managing capital are: to safeguard its ability to continue as a going concern; and, to have sufficient capital to fund the exploration and development of its mineral properties and acquisition of other resource properties for the benefit of its shareholders.

As at September 30, 2018, the Company had a working capital surplus of \$89,566 (December 31, 2017 – \$369,589 deficit).

The Company considers its capital structure to consist of shareholder equity. In order to maintain its capital structure, the Company is dependent on equity funding and, when necessary, raises capital through the issuance of equity instruments, comprised of common shares, warrants and incentive stock options. The Company has not established quantitative targets for its capital structure, however it reviews its capital management methods and requirements on an ongoing basis and makes adjustments, accordingly, to sustain future development of its activities.

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

CAPITAL MANAGEMENT (continued)

There were no changes in the Company's management of its capital during the six month period ended June 30, 2018. The Company is not subject to any externally imposed capital requirements.

7. INVESTMENT IN TORTUGA RESOURCES INC.

In 2014, the Company acquired 666,667 common shares of Tortuga Resources Inc. for USD \$200,000. Tortuga is a private company engaged in the acquisition, exploration and development of oil and gas properties in the United States. The price paid for the common shares represented the fair value at the time of acquisition. The fair value of the investment will be impacted by fluctuations in the United States dollar, investee corporate transactions and other factors, such as, industry developments and government regulations. An impairment loss was recognized in 2015 resulting in a nominal value of \$1 being assigned, as management lowered its outlook for recovering the investment.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30 2018	December 31 2017
Suppliers	\$ 178,706	\$ 122,119
Due to related parties (note 14)	26,930	175,603
	\$ 205,636	\$ 297,722

9. FLOW-THROUGH SHARE PREMIUM

On April 4, 2018, the Company completed a private placement consisting of 16,266,500 flow-through common shares at a price of \$0.06 per share, for gross proceeds of \$975,900. A flow-through share premium of \$81,332 was recorded on this financing. As of September 30, 2018, \$793,908 of these funds had been expended.

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

10. CAPITAL STOCK

Authorized

Unlimited common shares
Unlimited preferred shares

Issued

	Number	Amount
Balance, December 31, 2016	99,510,354	\$ 17,107,216
Shares issued by private placement (i)	3,830,000	191,500
Fair value attributed to warrants (i)	-	(90,510)
Share issuance costs (i)	-	(6,963)
Balance, December 31, 2017	103,340,354	\$ 17,201,243
Shares issued for mineral properties (ii)	800,000	39,500
Shares issued as debt settlement (iii)	1,126,000	78,820
Shares issued by private placement (iv)	36,276,500	1,976,490
Flow-through share premium (iv)	-	(81,332)
Fair value attributed to warrants (iv)	-	(263,683)
Share issuance costs (iv)	-	(21,603)
Balance, September 30, 2018	141,542,854	\$ 18,929,435

- (i) On December 5, 2017, the Company issued 3,000,000 units at \$0.05 per unit for gross proceeds of \$150,000. Each unit was comprised of one common share and common share purchase warrant. Each warrant entitles the holder to acquire an additional common share at a price of \$0.07 for a period of 24 months, expiring on December 5, 2019. If at any time, after April 6, 2018, the closing price of the common shares of the Company, as traded on the TSX Venture Exchange, equals or exceeds \$0.15 for 20 consecutive trading days, the Company has the right to accelerate the expiry date of the warrants to a date which is 30 days following the date of the Company announcing the accelerated expiry. The fair value of the warrants was estimated at \$70,949 using the relative fair value method.

On December 15, 2017, the Company issued 830,000 units at \$0.05 per unit for gross proceeds of \$41,500. Each unit was comprised of one common share and common share purchase warrant. Each warrant entitles the holder to acquire an additional common share at a price of \$0.07 for a period of 24 months, expiring on December 15, 2019. If at any time, after April 16, 2018, the closing price of the common shares of the Company, as traded on the TSX Venture Exchange, equals or exceeds \$0.15 for 20 consecutive trading days, the Company has the right to accelerate the expiry date of the warrants to a date which is 30 days following the date of the Company announcing the accelerated expiry. The fair value of the warrants was estimated at \$19,561 using the relative fair value method.

Cash share issuance costs incurred relating to these private placements was \$6,963.

- (ii) On February 28, 2018, the Company issued 300,000 common shares at \$0.04 per share in accordance with the option agreement for the Montcalm and Nova Projects (Note 12).

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

CAPITAL STOCK (continued)

On May 8, 2018, the Company issued 500,000 common shares at \$0.055 per share in accordance with the option agreement for the McBride Project (Note 12).

- (iii) On May 23, 2018, the Company issued 1,126,000 common shares at \$0.07 per share in settlement of trade payables of \$78,820. A Company officer/director was issued 500,000 shares to settle \$35,000 of management fees.
- (iv) On April 4, 2018, the Company closed a private placement consisting of: 20,010,000 units at \$0.05 per unit for gross proceeds of \$1,000,500; and, 16,266,500 flow-through shares at \$0.06 per share for gross proceeds of \$975,990. Each unit was comprised of one common share and one-half of a common share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at a price of \$0.08 for a period of eighteen (18) months, expiring on October 4, 2019. The warrant expiry date can be accelerated in the event the common shares trade on a stock exchange at a volume weighted average trading price \$0.15, or greater, per common share for a period of 20 consecutive trading days following the expiry of the statutory trading restriction on August 5, 2018. The fair value of the warrants was estimated at \$263,683 using the relative fair value method. The Company paid cash commissions of \$4,620.

Stock options

Under the terms of the Company's stock option plan ("Plan"), the Company is authorized to issue up to a maximum of 10% of the issued common shares with an exercise period not to exceed ten years. The term, exercise price and vesting conditions of the options are fixed by the Company's Board of Directors at the time of grant.

Stock option transactions and the number of stock options outstanding are as follows:

	Number	Weighted average exercise price
Balance, December 31, 2016	8,050,000	\$0.10
Granted (i)	500,000	0.12
Expired/Cancelled	(300,000)	0.10
Balance, December 31, 2017	8,250,000	\$0.10
Granted (ii)	3,850,000	0.06
Expired/Cancelled	(600,000)	0.11
Balance, September 30, 2018	11,500,000	\$0.09

- (i) On January 6, 2017, the Company granted 100,000 stock options to a consultant. These options vested immediately and were issued with an exercise price of \$0.12 and have a five year term, expiring on January 6, 2022.

On March 16, 2017, the Company granted 400,000 stock options to a director/officer. These options vested immediately and were issued with an exercise price of \$0.12 and have a five year term, expiring on March 16, 2022.

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

CAPITAL STOCK (continued)

(ii) On January 10, 2018, the Company granted 1,200,000 stock options to a director/officer and a consultant. These options vested immediately and were issued with an exercise price of \$0.05 and have a five year term, expiring on January 10, 2023.

On May 1, 2018, the Company granted 2,550,000 stock options to directors, officers, an employee and a consultant. These options vested immediately and were issued with an exercise price of \$0.07 and have a five year term, expiring on May 1, 2023.

On July 3, 2018, the Company granted 100,000 stock options to an investor relations consultant. These options: vest in instalments of 25,000 options per quarter; were issued with an exercise price of \$0.08; and, have a five year term, expiring on July 3, 2023.

Fair value of the options issued were estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2018	2017
Dividend yield	Nil	Nil
Expected volatility (based on historical trends of the Company)	238%	226%
Risk free rate of return	1.87%	1.22%
Expected life	5 years	5 years
Share price	\$0.06	\$0.06

Share-based payment expense recognized for the options granted in 2018 was \$221,912 and \$27,050 for the options granted in 2017. The offsetting credit was charged to contributed surplus.

The following summarizes information on the outstanding stock options:

Expiry date	Number	Exercise price	Exercisable	Average remaining contractual life (years)	Unamortized stock-based compensation
November 18, 2018	150,000	\$0.10	150,000	0.13	\$ -
June 11, 2019	1,900,000	0.05	1,900,000	0.69	-
September 21, 2021	4,300,000	0.12	4,300,000	2.97	-
November 1, 2021	800,000	0.12	800,000	3.08	-
January 6, 2022	100,000	0.12	100,000	3.27	-
March 16, 2022	400,000	0.12	400,000	3.45	-
January 10, 2023	1,200,000	0.05	1,200,000	4.28	-
May 1, 2023	2,550,000	0.07	2,550,000	4.58	-
July 3, 2023	100,000	0.08	25,000	4.75	3,598
	11,500,000	\$0.09	11,425,000	3.09	\$ 3,598

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

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11. WARRANTS

	Number	Weighted average Exercise price	Fair value
Balance, January 1, 2016	12,726,250	\$0.12	\$ 503,224
Warrants issued	3,830,000	0.07	90,510
Balance, December 31, 2017	16,556,250	\$0.11	\$ 593,734
Warrants issued	10,005,000	0.08	263,683
Warrants expired	(12,726,250)	0.12	(503,224)
Balance, September 30, 2018	13,835,000	\$0.08	\$ 354,193

The following summarizes information on the outstanding warrants:

Expiry Date	Number	Exercise price	Average remaining life (years)	Fair value
December 5, 2019	3,000,000	\$0.07	1.18	\$ 70,949
December 15, 2019	830,000	0.07	1.21	19,561
October 4, 2019	10,005,000	0.08	1.01	263,683
	13,835,000	\$0.08	1.06	\$ 354,193

The relative fair value of the warrants was estimated using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2018	2017
Dividend yield	Nil	Nil
Expected volatility (based on historical trends)	192%	247%
Risk free rate of return	1.81%	1.54%
Expected life	1.5 years	2 years
Share price	\$0.055	\$0.04

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

12. CORPORATE AND ADMINISTRATIVE

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Consulting	\$ -	\$ -	\$ -	\$ 6,406
Filing and transfer agent fees	7,476	3,022	27,277	20,858
Insurance	4,888	6,458	14,718	19,678
Management fees (notes 14,15)	56,127	54,831	138,677	190,459
Office and general	1,386	455	8,583	7,660
Professional fees	9,573	8,214	56,314	41,422
Rent (note 14)	5,403	2,628	13,035	8,030
Salaries and benefits	5,618	3,228	17,025	27,226
Shareholder relations and promotion	28,924	954	80,596	33,636
Travel	4,650	304	16,516	18,076
	\$ 124,045	\$ 80,094	\$ 372,741	\$ 373,451

13. EXPLORATION AND EVALUATION

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Acquisition costs	\$ -	\$ -	\$ 217,000	\$ -
Property costs	17,559	16,915	133,628	126,963
Assaying	9,525	-	9,525	49,970
Community relations	13,471	-	13,471	-
Consulting/Contracting	128,950	-	203,907	71,123
Drilling	3,000	-	21,005	119,813
Equipment and supplies	19,302	-	30,047	25,345
Geophysics/Surveys	135,235	-	234,234	-
Reports	71,439	-	71,583	593
Site costs	15,493	2,479	29,723	9,458
Travel/Transportation	11,423	63	17,487	16,793
Wages and benefits	128,176	677	172,814	47,774
	\$ 553,573	\$ 20,134	\$ 1,154,424	\$ 467,832

McBride Project – Ontario, Canada

The McBride Project is an exploration-staged nickel-cobalt-copper project located in Limerick Township, approximately 25 kilometres south of Bancroft, Ontario. The McBride Project encompasses a total of 880 hectares and is comprised of the North Zone deposit, the South Zone deposit and the South Extension prospect.

Option Agreement

On April 25, 2018, the Company entered into an option agreement with Hastings Highlands Resources Limited (the "Optionor"), pursuant to which the Company obtained the right (the "Option") to acquire up to a 76% interest in the McBride Project. The Option may be exercised in three stages as follows:

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

EXPLORATION AND EVALUATION (continued)

- (i) First Option – to earn an initial 26% interest the Company shall:
- Pay \$142,500 to the Optionor on or before April 25, 2018 (paid);
 - Pay applicable annual property taxes;
 - Issue 500,000 shares to the Optionor upon receipt of TSX Venture Exchange approval (issued);
 - Incur expenditures of \$1.5 million during the first year of the Option.
- (ii) Second Option – to earn an additional 25% interest the Company shall during the second, third and fourth years of the Option:
- Pay \$142,500 to the Optionor and property owners, annually and in aggregate;
 - Pay applicable annual property taxes;
 - Incur expenditures of \$3.0 million in aggregate for the purposes of obtaining a scoping study.
- (iii) Third Option – to earn an additional 25% interest the Company shall during the fifth and sixth years of the Option:
- Pay \$142,500 to the Optionor and property owners, annually and in aggregate;
 - Pay applicable annual property taxes;
 - Incur sufficient expenditures for the purposes of obtaining a feasibility study.

In the event that the Company fails to exercise the Second Option then the initial 26% interest earned by the Company pursuant to the First Option shall revert to the Optionor. Upon the exercise of the Third Option the Company and Optionor shall form a joint venture and all future costs and revenues shall be shared on a proportionate basis. The Company's interest in the McBride Project may be increased to 90% provided the Optionor elects not to participate or fund its interest in the joint venture.

The McBride Project is subject to a 1.75% net smelter return (NSR) royalty. The Company reserves the right to purchase, prior to production, 0.75% of the NSR royalty (such that the remaining NSR royalty is reduced to 1%) for \$1,000,000.

McBride	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Acquisition costs – Option payments	\$ -	\$ -	\$ 170,000	\$ -
Property costs	2,570	-	7,468	-
Community relations	13,471	-	13,471	-
Consulting/Contracting	112,550	-	176,707	-
Drilling	3,000	-	21,005	-
Equipment and supplies	17,427	-	28,172	-
Geophysics/Surveys	46,600	-	66,600	-
Reports	67,138	-	67,138	-
Site costs	13,372	-	22,303	-
Travel/Transportation	11,602	-	17,487	-
Wages and benefits	126,981	-	170,346	-
	\$ 414,711	\$ -	\$ 760,697	\$ -

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

EXPLORATION AND EVALUATION (continued)

Montcalm and Nova Projects – Ontario, Canada

Montcalm and Nova are exploration-stage nickel-cobalt-copper prospective projects located within the Porcupine Mining Division, approximately 65 kilometres northwest of Timmins, Ontario, Canada. Montcalm encompasses an area of 3,780 hectares and Nova encompasses an area of 2,080 hectares. The Montcalm and Nova properties are subject to an option agreement as described below.

Option Agreement

On January 5, 2018, the Company entered into an option agreement (the “Option Agreement”) with 2522962 Ontario Inc. (the “Optionor”) pursuant to which the Company obtained the right (the “Option”) to acquire a 100% interest in the Montcalm and Nova properties. In order to exercise the Option, the Company shall:

- (i) Pay the Optionor an aggregate of \$140,000 as follows:
 - \$35,000 on or before June 28, 2018 (paid);
 - \$35,000 on or before January 22, 2019;
 - \$35,000 on or before January 22, 2020;
 - \$35,000 on or before January 22, 2021.

- (ii) Issue to the Optionor an aggregate of 1,200,000 common shares of the Company as follows:
 - 300,000 common shares on or before January 29, 2018 (issued);
 - 300,000 common shares on or before January 22, 2019;
 - 300,000 common shares on or before January 22, 2020;
 - 300,000 common shares on or before January 22, 2021.

A net smelter return royalty of 2.5% (the “NSR”) is payable to the Optionor from all minerals sold from the Montcalm and Nova properties. The Company reserves the right to purchase 1% of the NSR (such that the Optionor’s NSR is reduced to 1.5%) for \$1,000,000. The Company is required to keep the Montcalm and Nova properties in good standing during the term of the Option Agreement.

Montcalm	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Acquisition costs	\$ -	\$ -	\$ 37,600	\$ -
Property costs	375	-	375	-
Consulting/Contracting	4,325	-	12,125	-
Geophysics/Surveys	88,635	-	157,700	-
Reports	2,736	-	2,736	-
Travel/Transportation	(179)	-	-	-
	\$ 95,892	\$ -	\$ 210,536	\$ -

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

EXPLORATION AND EVALUATION (continued)

Nova	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Acquisition costs	\$ -	\$ -	\$ 9,400	\$ -
Property costs	3,525	-	3,525	-
Assaying	9,525	-	9,525	-
Consulting/Contracting	11,475	-	14,475	-
Equipment and supplies	1,875	-	1,875	-
Geophysics/Surveys	-	-	9,934	-
Reports	1,565	-	1,709	-
	\$ 27,965	\$ -	\$ 50,443	\$ -

Gambler Project – Ontario, Canada

Gambler is an exploration-stage nickel-cobalt-copper prospective project located within the Porcupine Mining Division, approximately 65 kilometres northwest of Timmins, Ontario, Canada. Gambler is adjacent to the Montcalm Project and encompasses an area of 6,980 hectares. The Gambler property was staked by the Company in 2018.

Gambler	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Property costs	\$ 1,950	\$ -	\$ 19,900	\$ -
Consulting/Contracting	600	-	600	-
	\$ 2,550	\$ -	\$ 20,500	\$ -

Jefferson Project – South Carolina, United States

On August 17, 2016 the Company acquired a 100% interest in exploration-stage gold prospective properties located in Chesterfield County, South Carolina, United States. The Jefferson Project consists of 11 property leases encompassing approximately 1,234 acres. During 2018, the Company relinquished 2 leases representing approximately 222 acres.

The property leases range in expiration from 2019 to 2032 and payments for 2018 consist of: lease payments ranging between US \$3,300 - \$24,000 per property; and, advance royalty payments (“ARP”) ranging between US \$900 - \$25,000 per property. Total payments to maintain the leases for 2018 is US \$108,225 (2017 - \$128,825), which is comprised of annual lease payments amounting to US \$72,825 and annual ARPs amounting to US \$35,400.

A production royalty of 3.5% (the “Royalty”) is payable to the landowner that owns the property from which minerals are produced. ARPs are non-refundable and will be credited towards the Royalty payable from production.

The Company is current with its payments and reserves the right to relinquish a property lease at any time.

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

EXPLORATION AND EVALUATION (continued)

Jefferson	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
Property costs	\$ 9,139	\$ 16,915	\$ 102,360	\$ 126,963
Assaying	-	-	-	49,970
Consulting/Contracting	-	-	-	71,123
Drilling	-	-	-	119,813
Equipment and supplies	-	-	-	25,345
Reports	-	-	-	593
Site costs	2,121	2,479	7,420	9,458
Travel/Transportation	-	63	-	16,793
Wages and benefits	1,195	677	2,468	47,774
	\$ 12,455	\$ 20,134	\$ 112,248	\$ 467,832

14. RELATED PARTY TRANSACTIONS AND BALANCES

	Three months ended		Nine months ended	
	September 30		September 30	
	2018	2017	2018	2017
Management fees (i)	\$ 56,127	\$ 54,831	\$ 138,677	\$ 190,459
Rent (ii)	3,903	1,128	8,535	3,530
Share-based payments (iii)	-	-	184,074	19,650
	\$ 60,030	\$ 55,959	\$ 331,286	\$ 213,639

(i) Management fees were paid or became payable to a Company officer and to companies controlled by or associated with Company officers.

(ii) Rent was paid or became payable to a Company officer and a company controlled by a Company officer.

(iii) Share-based compensation represents the fair value of stock options granted to Company directors and officers.

Loans from related parties balance of \$129,190 (December 31, 2017 - \$165,000) consist of cash loans provided by Company directors/officers or entities controlled by or associated with directors/officers. These loans are non-interest bearing, unsecured and due on demand. The Company: received cash loans of \$nil (2017- \$3,366) for the three month period and \$12,940 (2017 - \$38,500) for the nine month period from a director/officer and a company associated with an officer; and, repaid a director for a cash loan of \$48,750 (2017 - \$nil) for the nine month period.

On May 23, 2018, the Company issued 500,000 common shares to an officer to settle management fees totalling \$35,000.

Included in accounts payable and accrued liabilities is \$26,930 (December 31, 2017 - \$175,603) payable to directors/officers or entities controlled by or associated with directors/officers.

PANCONTINENTAL RESOURCES CORPORATION

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

15. MANAGEMENT COMPENSATION

Compensation of key management (directors/officers) of the Company is included in the table below. Key management are those persons having authority and responsibility for planning, directing and controlling activities, directly or indirectly, of the Company.

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Short-term compensation	\$ 56,127	\$ 25,500	\$ 155,754	\$ 133,489
Stock-based compensation	-	423,212	184,074	19,650
	\$ 56,127	\$ 448,712	\$ 339,828	\$ 153,139

16. GROSS OVERRIDING ROYALTY ("GOR")

On February 8, 2007, the Company formed a joint venture with Crossland Strategic Metals Limited ("Crossland") and subsequently earned a 50% interest in a number of Australian properties prospective for rare earth elements (REE) and uranium. On November 26, 2015 (the "Effective Date") the Company completed the sale of its entire interest to Essential Mining Resources Pty Ltd. ("EMR") and retained a gross overriding royalty of one percent (1%) on sales of production from the joint venture properties. In 2017 a merger between Crossland and EMR was completed.

On each anniversary of the Effective Date, Crossland is obligated to pay to the Company an advance royalty of AUS \$29,621, which may be adjusted for future reductions in the size of the properties. The advance royalty payments received by the Company are non-refundable and are to be deducted from the 1% GOR payable to the Company upon the properties being placed into production. Payment of the advance royalty payable due on November 26, 2017 was received in 2018.

17. LOSS PER SHARE

Loss per share is calculated using the weighted average number of shares outstanding for the period. For the purpose of calculating the basic and diluted loss per share the effect of the potentially dilutive options and warrants were not included in the calculation as the result would be anti-dilutive.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

The carrying value of the royalty revenue receivable, accounts payable and accrued liabilities and loans from related parties approximates fair value due to the relative short-term maturity of these financial instruments. Fair value represents the amount that would be exchanged in an arms-length transaction between willing parties and is best evidenced by a quoted market price, if one exists.

IFRS 7 requires that all financial instruments measured at fair value be categorized into one of three hierarchy levels for disclosure purposes, as described below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities.

- Level one - includes quoted prices (unadjusted) in active markets for identical assets or liabilities;

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NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended September 30, 2018

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

- Level two - includes inputs that are observable, either directly (prices) or indirectly (derived from prices), other than from quoted prices included in level one; and,
- Level three - includes inputs that are not based on observable data.

	September 30 2018	December 31 2017
Level 1:		
Cash	\$ 381,919	\$ 61,180

The differences in the classification of the Company's financial instruments between IAS 39 and IFRS 9 are illustrated below:

IAS 39	December 31 2017
Fair value through profit or loss (i)	\$ 61,180
Loans and receivables (ii)	22,002
Available for sale (iii)	1
Other financial liabilities (iv)	462,722

IFRS 9	January 1 2018
Fair value through profit or loss (i), (iii)	\$ 61,181
Amortized cost - financial assets (ii)	22,002
Amortized cost - financial liabilities (iv)	462,722

- (i) Cash
- (ii) Royalty revenue receivable
- (iii) Investment in Tortuga Resources Inc.
- (iv) Accounts payable and accrued liabilities, loans from related parties

Risk Management

The Company's financial risk management activities include the preservation of its capital by minimizing risk related to its cash. The Company does not trade financial instruments for speculative purposes. The Company does not have a risk management committee or written risk management policies.

The primary risks the Company's financial instruments are exposed to are described below:

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party, by failing to discharge their obligations. Financial instruments that potentially expose the Company to this risk consist of cash and the royalty revenue receivable. The Company mitigates the risk to its cash by depositing a majority of its cash with Canadian and United States banks. Allowances for the royalty revenue receivable are recognized as necessary for potential credit losses.

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For the nine months ended September 30, 2018

FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure as described in Note 6. The Company has no income from operations or a regular source of cash flow and relies on equity funding to support its exploration and corporate activities. Should the need for equity funding arise, there is a risk that the Company may not be successful in selling new common shares at acceptable prices.

Accounts payable and accrued liabilities are generally due within 30 days and loans from related parties are due on demand.

Foreign Currency Risk

The Company operates in Canada and the United States, thus exposing the Company to market risks from fluctuations in foreign exchange rates. The Company has certain corporate and administrative expenditures and future potential financial commitments (Note 13) denominated in United States dollars. The Company monitors foreign exchange rates and has not entered into any financial arrangements to hedge or protect the Company from unfavourable changes in foreign exchange rates.

A 10% change in the United States dollar will impact profitability by approximately \$3,000.

Interest Rate Risk

The Company is not exposed to any significant interest rate risk. When applicable, excess cash is invested in financial instruments that provide safety and flexibility for early redemption. The Company has no interest bearing debt.

19. SUBSEQUENT EVENTS

On October 1, 2018, the Company completed a memorandum of understanding (MOU) with the Flying Post First Nation (FPFN) to establish a formal relationship concerning aboriginal and treaty rights with respect to the Company's exploration activities at its Montcalm, Nova and Gambler Projects. Pursuant to the MOU, on November 12, 2018, the Company:

- issued 50,000 common shares to FPFN; and,
- granted 50,000 stock options to FPFN. The options vested immediately and were issued with an exercise price of \$0.06 and a five year term.