

Consolidated Financial Statements

Pilot Gold Inc.

For the period April 23, 2010 to December 31, 2010
(Expressed in Canadian Dollars)

March 2, 2011

Independent Auditor's Report

To the Directors of Pilot Gold Inc.

We have audited the accompanying consolidated financial statements of Pilot Gold Inc., which comprise the consolidated balance sheet as at December 31, 2010 and the consolidated statements of loss and comprehensive loss, shareholder's equity and cash flows for the period April 23, 2010 to December 31, 2010, and the related notes including a summary of significant accounting policies.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pilot Gold Inc. as at December 31, 2010 and the results of its operations and its cash flows for the period April 23, 2010 to December 31, 2010 in accordance with Canadian generally accepted accounting principles.

"PRICEWATERHOUSECOOPERS LLP"

Chartered Accountants

PILOT GOLD INC.

Consolidated Balance Sheet
(Expressed in Canadian dollars)

	<u>December 31, 2010</u>
ASSETS	
<i>Non-current assets</i>	
Exploration properties and deferred exploration expenditures (Note 5)	\$ 1,146,621
Total assets	<u>\$ 1,146,621</u>
LIABILITIES AND SHAREHOLDER'S EQUITY	
<i>Current liabilities</i>	
Trade and other payables	\$ 22,227
Total current liabilities	<u>22,227</u>
<i>Non-current liabilities</i>	
Future Income taxes (Note 4)	—
<i>Shareholder's Equity</i>	
Share capital	1,215,486
Contributed Surplus	79,838
Accumulated deficit	<u>(170,930)</u>
Total equity	1,124,394
Total equity and liabilities	<u>\$ 1,146,621</u>

Approved by the Board of Directors:

“Matthew Lennox-King”, Director

“Sean Tetzlaff”, Director

The accompanying notes form an integral part of these consolidated financial statements

PILOT GOLD INC.

**Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian dollars)**

	For the period April 23, 2010 to December 31, 2010
Operating expenses:	
Stock-based compensation	\$ 52,758
Wages and benefits	49,889
Professional fees	36,503
Office and general	20,780
Investor relations, promotion and advertising	11,000
Loss before income taxes	<u>170,930</u>
Future income taxes (Note 4)	<u>—</u>
Net loss and comprehensive loss for the period	<u>\$ 170,930</u>

The accompanying notes form an integral part of these consolidated financial statements

PILOT GOLD INC.

**Consolidated Statement of Shareholder's Equity
(Expressed in Canadian dollars)**

	Common Shares		Accumulated Other		Total Shareholder's Equity
	Shares #	Amount \$	Contributed Surplus \$	Accumulated Deficit \$	
Balance as at April 23, 2010	—	—	—	—	—
Shares issued on incorporation.....	1	1	—	—	1
Private placement by Fronteer.....	10,000,000	1,215,485	—	—	1,215,485
Costs allocated by Fronteer.....	—	—	79,838	—	79,838
Net loss for the period	—	—	—	(170,930)	(170,930)
Balance as at December 31, 2010.....	<u>10,000,001</u>	<u>1,215,486</u>	<u>79,838</u>	<u>(170,930)</u>	<u>1,124,394</u>

The accompanying notes form an integral part of these consolidated financial statements

PILOT GOLD INC.
Consolidated statement of cash flows
(Expressed in Canadian dollars)

	<u>For the period</u> <u>April 23, 2010 to</u> <u>December 31, 2010</u>
Cash flows from operating activities	
Loss for the period.....	\$ (170,930)
Items not affecting cash:	
Stock based compensation	52,758
Movements in working capital:	
Accounts payable and accrued liabilities	<u>22,227</u>
Net cash used by operating activities.....	\$ (95,945)
Cash flows from investing activities	
Acquisition of exploration properties and deferred exploration expenditures	<u>\$ (1,215,486)</u>
Net cash used by investing activities	<u>\$ (1,215,486)</u>
Cash flows from financing activities	
Funding received from parent for operations and purchase of exploration properties and deferred exploration expenditures	<u>\$ 1,311,431</u>
Net cash generated by financing activities.....	<u>\$ 1,311,431</u>
Net increase (decrease) in cash and cash equivalents.....	\$ —
Cash and cash equivalents at beginning of period.....	\$ —
Cash and cash equivalents at end of the period.....	<u><u>\$ —</u></u>

The accompanying notes form an integral part of these consolidated financial statements

PILOT GOLD INC.

Notes to the Consolidated Financial Statements

From April 23 to December 31, 2010

(Expressed in Canadian dollars)

1. INCORPORATION AND BASIS OF PRESENTATION

7703627 Canada Inc. was incorporated on November 18, 2010, under the Canada Business Corporations Act. Subsequently, on December 13, 2010, 7703627 Canada Inc.'s name was changed to Pilot Gold Inc. ("Pilot Gold" or the "Company"). The Company is a wholly-owned subsidiary of Fronteer Gold Inc. ("Fronteer").

On February 3, 2011, Pilot Gold and Fronteer entered into an agreement with Newmont Mining Corporation ("Newmont"), pursuant to which Newmont will acquire, by way of a court approved plan of arrangement (the "Arrangement"), the issued and outstanding shares of Fronteer. Under the Arrangement, each Fronteer shareholder will receive \$14.00 per share in cash and 0.25 of a common share of Pilot Gold (after a one for four share consolidation of Pilot Gold).

Pursuant to the Arrangement, Newmont will acquire all of Fronteer's mineral property interests in Nevada with the exception of eleven exploration properties which will be owned by Pilot Gold after the Arrangement. Five properties have already been transferred to Pilot Gold (including four that will remain with Pilot following completion of the Arrangement) and the remaining seven exploration properties in Nevada, along with Fronteer's assets and operations in Turkey and Fronteer's investment in common shares and share purchase warrants of Rae Wallace Mining Company ("Rae Wallace") and an option to acquire an interest in two Peruvian properties owned by Rae Wallace will be transferred to Pilot Gold prior to the effective date of the Arrangement and will collectively represent the Pilot Gold business (the "Exploration Properties Business"). In addition, Pilot Gold will be capitalized with approximately \$9,640,000 in funding (representing \$10,000,000 less cash call payments anticipated to be made by Fronteer for the Turkish joint venture operations from the date the Arrangement was announced to the effective date of the Arrangement). Prior to the Effective Date of the Arrangement, the South Monitor property in Pilot Gold will be transferred back to a subsidiary of Fronteer to be acquired by Newmont under the Arrangement. Upon completion of the Arrangement, Newmont will own approximately 19.9% of Pilot Gold.

The Arrangement has been approved by the Board of Directors of Fronteer and is subject to approval by two-thirds of the votes cast by holders of Fronteer common shares and Fronteer options, voting as a single class, at a special meeting of Fronteer security holders scheduled for March 30, 2011.

These financial statements reflect the assets, liabilities, operations and cash flows of Pilot Gold as it pertains to the assets transferred to Pilot Gold at December 31, 2010 on a continuity of interest basis of accounting with the balance sheet amounts based on the amounts recorded by Fronteer. They comprise the balance sheets, statements of operations and comprehensive loss and shareholder's equity, and cash flows as if Pilot Gold had been an independent operator during the period reported. The statements of operations and comprehensive loss for the period of April 23, 2010 to December 31, 2010 include the direct general and administrative expenses incurred by Fronteer on the exploration properties and a pro-rata allocation of Fronteer's general and administrative expenses incurred in 2010. Management cautions readers of these consolidated financial statements that the allocation of expenses in the statements of operations does not necessarily reflect the nature and level of Pilot Gold's future operating expenses.

The allocation of those items of general and administrative expense not directly chargeable to Pilot Gold were allocated using the percentage derived from the ratio of total exploration expenditures incurred on the four wholly owned Pilot Gold projects over Fronteer's total exploration and development expenditures. Fronteer's funding of the carved-out exploration assets and liabilities and past carved-out operations is presented as contributed surplus.

2. NATURE OF OPERATIONS

The Company is an exploration stage business engaged in the acquisition and exploration of mineral properties located in Nevada, USA.

The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The continued operations of the Company and the recoverability of the amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of such properties and upon future profitable production or proceeds from the disposition of the properties.

At December 31, 2010, the Company had \$nil in cash and cash equivalents. The Company has an ongoing requirement for investment to fund exploration of its mineral properties. Pilot Gold expects to receive additional funding from the successful completion and closing of the Arrangement and thereafter expects to raise additional equity financing to support future investing and operating activities. There can be no assurance as to the availability or terms upon which such financing might be available. Under the Arrangement, Pilot Gold will be capitalized with approximately \$9,640,000 in cash.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Company are in accordance with Canadian generally accepted accounting principles. Outlined below are those policies considered significant.

Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant wholly-owned subsidiary Pilot Gold USA Inc. All significant intercompany balances and transactions have been eliminated.

Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of expenses during the reporting period. Areas requiring the use of management estimates include the potential recognition of future income tax assets and impairment of exploration properties and deferred exploration expenditures. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits in banks with an original maturity of 90 days or less, and are carried at fair value.

Exploration Properties and Deferred Exploration Expenditures

Acquisition and exploration expenditures on properties, less recoveries in the pre-production stage, are deferred until such time as the properties are put into commercial production, sold or become impaired. On the commencement of commercial production, the deferred costs are charged to operations on the unit-of-production method based upon estimated recoverable proven and probable reserves. General exploration expenditures are charged to operations in the period in which they are incurred. The Company recognizes the payment or receipt of amounts required under option agreements as an addition or reduction, respectively, in the book value of the property under option when paid or received.

Impairment of Long-Lived Assets

The Company reviews and evaluates its long-lived assets for impairment when events or changes in circumstances indicate that the related carrying amounts may not be recoverable. An indication of impairment is considered to exist if total estimated future cash flows on an undiscounted basis are less than the carrying amount of the asset.

An impairment loss is measured and recorded based on the estimated fair value of the assets. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Any differences between significant assumptions used and actual market conditions and/or the Company's performance could have a material effect on the Company's financial position and results of operations.

Income Taxes

Income taxes are accounted for using the asset and liability method. Under this method of tax allocation, future tax assets and liabilities are determined based on differences between the financial statement carrying values of existing assets and liabilities and their respective income tax bases ("temporary differences") and losses carried forward. Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to be in effect when the temporary differences are likely to reverse. The effect of a change in tax rates on future income tax assets and liabilities is reflected in the period in which the change is substantively enacted. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

Foreign Currency Translation

These financial statements are denominated in Canadian dollars, the Company's functional currency. Amounts denominated in foreign currencies are translated into Canadian dollars as follows:

- i. monetary assets and liabilities at the rates of exchange in effect at the balance sheet date;
- ii non-monetary assets at historical rates;
- iii. revenue and expense items at the average rates for the period, except for depreciation and amortization, which are based on historical rates.

The net effect of foreign currency translation is included in the statement of operations.

Financial Instruments

All financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets and other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of financial instruments depends on their initial classification:

- Held-to-maturity investments, loans and receivables and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and losses due to impairment are included in current period net earnings.
- Available-for-sale financial assets are measured at fair value. Revaluation gains and losses are included in other comprehensive income until the asset is removed from the balance sheet. Losses due to impairment are included in net earnings.
- Held for trading financial instruments are measured at fair value. All gains and losses are included in net earnings in the period in which they arise.
- All derivative financial instruments are classified as held for trading financial instruments and are measured at fair value, even when they are part of a hedging relationship. All gains and losses are included in net earnings in the period in which they arise, except for derivative instruments which represent a cash flow hedge, where the gain or loss is recognized in other comprehensive income.

The Company's financial instruments primarily consist of accounts payable (classified as other financial liabilities). The fair value of these financial instruments approximates their carrying values.

Comprehensive loss comprises the Company's net loss and other comprehensive loss. Comprehensive loss represents changes in shareholders' equity during a period arising from non-owner sources. Financial instruments are recognized on the balance sheet when the Company has become party to the contractual provisions of the instruments.

4. INCOME TAXES

- a) Provision for income taxes:

The recovery of income taxes differs from the amount that would have resulted from applying combined Canadian federal and provincial statutory tax rates for 2010 of 28.5%. The accounting basis for Pilot Gold is taken to be the same as for Fronteer for the specific assets and liabilities of Pilot Gold.

	December 31, 2010
	<u>\$</u>
Loss before taxes.....	(170,930)
Expected income tax recovery	(48,715)
Permanent difference:	
Stock based compensation	15,246
Difference between fair value and continuity of interest accounting.....	(23,933)
Rate differences in other jurisdictions	(1,817)
Changes in enacted and substantively enacted rates.....	3,270
Valuation allowance	<u>55,949</u>
Income tax expense	<u>—</u>

b) Future tax balances:

	December 31, 2010
	<u>\$</u>
Operating tax losses carried forward	355,206
Valuation Allowance	(55,949)
Mineral property.....	<u>(299,257)</u>
Net Future Tax Asset/(Liability)	<u>—</u>

There are no income taxes owed by the Company at December 31, 2010. As at December 31, 2010, Pilot Gold had available for deduction against future taxable income in Canada and the USA, losses of approximately \$22,000 and \$923,400, respectively.

5. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

	Total April 23, 2010	Additions/ Allocations	Total December 31, 2010
	<u>\$</u>	<u>\$</u>	<u>\$</u>
Regent.....	—	702,373	702,373
South Monitor	—	27,730	27,730
Cold Springs	—	175,741	175,741
Buckskin.....	—	63,042	63,042
Brik.....	<u>—</u>	<u>177,735</u>	<u>177,735</u>
Total	<u>—</u>	<u>1,146,621</u>	<u>1,146,621</u>

On April 23, 2010, Fronteer acquired 100% of the outstanding limited liability company interests in Nevada Eagle Resources, LLC (“Nevada Eagle”) from Gryphon Gold Corporation for cash consideration of US\$4,750,000 (\$4,763,000 Canadian dollars).

On December 30, 2010, Pilot Gold entered into an agreement with Nevada Eagle Resources LLC and Fronteer Development USA Inc., both wholly-owned subsidiaries of Fronteer, in which the Company acquired five mineral properties for a total of \$1,215,486 in cash consideration. Under the continuity of interest basis of accounting, these properties are recorded at the carrying amounts in Fronteer of \$1,146,621. The difference is reflected as a reduction of contributed surplus.

Prior to the effective date of the Arrangement, the South Monitor property will be transferred back to a subsidiary of Fronteer to be acquired by Newmont pursuant to the Arrangement.

6. CAPITAL DISCLOSURES

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

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

7. FINANCIAL RISK MANAGEMENT

Financial Risk Management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Company's Board of Directors approves and monitors the risk management processes, inclusive of documented treasury policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's credit risk is primarily attributable to its liquid financial assets. The Company limits exposure to credit risk and liquid financial assets through maintaining its cash and cash equivalents, with Canadian Chartered Banks and its reclamation deposits with A+ or higher rated US financial institutions.

Liquidity Risk

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

Market Risk

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

Foreign Exchange Risk

The results of the Company's operations are exposed to currency fluctuations. The operating results and financial position of the Company are reported in Canadian dollars in the Company's consolidated financial statements. The fluctuation of the Canadian dollar in relation to the US dollar will consequently have an impact upon the financial results of the Company and may also affect the value of the Company's assets, liabilities and shareholders' equity. The Company has not entered into any derivative contracts to manage foreign exchange risk at this time.

Fair Value Estimation

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

8. SEGMENT INFORMATION

The Business has two geographical segments: Canada and the United States. The net loss relating to the operations in Canada and the United States totalled \$142,969 and \$27,961 respectively for the period ended December 31, 2010. The total assets attributable to the geographical locations relate primarily to their exploration properties and deferred exploration expenditures and are distributed geographically as follows:

	December 31,
	2010
	<u>\$</u>
Canada.....	—
USA.....	1,146,621
	<u>1,146,621</u>