

## **NOTE**

**The following Audited Consolidated Financial Statements of the Exploration Properties Business of Fronteer Gold Inc. relate to the Exploration Properties Business of Fronteer Gold Inc. which was acquired by Pilot Gold Inc. in connection with the spin-out of Pilot Gold Inc. to the former securityholders of Fronteer Gold Inc. on April 6, 2011.**

**Consolidated Business Statements**

**Exploration Properties Business of Fronteer Gold Inc.**

Years ended December 31, 2010 and 2009  
(Expressed in Canadian dollars)

**March 2, 2011**

**Independent Auditor's Report**

**To the Directors of Fronteer Gold Inc.**

We have audited the accompanying consolidated financial statements of the Exploration Properties Business of Fronteer Gold Inc., which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009 and the consolidated statements of operations, comprehensive loss, equity and deficit and cash flows for the years then ended, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Exploration Properties Business of Fronteer Gold Inc. as at December 31, 2010 and December 31, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**"PRICEWATERHOUSECOOPERS LLP"**

Chartered Accountants

**EXPLORATION PROPERTIES BUSINESS OF FRONTEER GOLD INC.**

**Consolidated Balance Sheets  
(Expressed in Canadian dollars)**

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	<u>(expressed in Canadian dollars)</u>	
<b>ASSETS</b>		
Current assets:		
Cash.....	\$ 86,963	\$ 229,314
Accounts receivable and other.....	<u>286,503</u>	<u>259,909</u>
	373,466	489,223
Property & equipment (Note 4).....	962,402	777,043
Long term investments (Note 7).....	419,217	—
Reclamation deposits.....	12,858	—
Exploration properties and deferred exploration expenditures (Note 5).....	1,972,761	383,971
Equity investments in Turkish Properties (Note 6).....	<u>3,087,021</u>	<u>918,822</u>
	<u>\$ 6,827,725</u>	<u>\$ 2,569,059</u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities.....	\$ 51,779	\$ 36,648
	51,779	36,648
Future income taxes (Note 8).....	2,657	2,682
Equity		
Contributed surplus.....	10,483,522	4,824,863
Accumulated other comprehensive loss.....	(8,771)	—
Accumulated deficit.....	<u>(3,701,462)</u>	<u>(2,295,134)</u>
	<u>6,773,289</u>	<u>2,529,729</u>
	<u>\$ 6,827,725</u>	<u>\$ 2,569,059</u>
Nature of operations (Note 2)		
Commitments (Note 11)		

Approved by the Board of Directors:

“Mark O’Dea”, Director

“Oliver Lennox-King”, Director

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

**EXPLORATION PROPERTIES BUSINESS OF FRONTEER GOLD INC.**

**Consolidated Statements of Operations  
(Expressed in Canadian dollars)**

	<b>For the year ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
Operating expenses:		
Amortization .....	\$ 398,897	\$ 369,466
Wages and benefits.....	312,569	85,629
Office and general .....	187,118	79,193
Professional fees.....	94,756	72,962
Stock-based compensation .....	164,267	27,328
Investor relations, promotion and advertising.....	33,544	6,649
Write down of exploration properties and deferred exploration expenditures (Note 5).....	—	1,085,436
	<hr/>	<hr/>
Loss from operations .....	1,191,151	1,726,663
Other income (expenses):		
Change in fair value of financial instruments.....	(72,112)	—
Foreign exchange gain (loss).....	(48,141)	(37,116)
Equity income (loss) from Turkish Properties.....	(94,951)	—
	<hr/>	<hr/>
	(215,204)	(37,116)
Loss before income taxes.....	<hr/>	<hr/>
	(1,406,355)	(1,763,779)
Future income tax recovery (loss) (Note 8) .....	27	(242)
Net loss for the year.....	<hr/>	<hr/>
	\$ (1,406,328)	\$ (1,764,021)

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

**EXPLORATION PROPERTIES BUSINESS OF FRONTEER GOLD INC.**

**Consolidated Statement of Cash Flows  
(Expressed in Canadian dollars)**

	<u>For the year ended December 31,</u>	
	<u>2010</u>	<u>2009</u>
Cash provided (used for):		
Operating activities:		
Net loss for the year .....	\$ (1,406,328)	\$ (1,764,021)
Items not affecting cash:		
Stock-based compensation .....	164,267	27,328
Amortization .....	398,897	369,466
Equity income from Turkish properties .....	94,951	—
Foreign exchange.....	48,141	37,116
Future income taxes.....	(27)	242
Write down of exploration properties and deferred exploration expenditure .....	—	1,085,436
Change in fair value of financial instruments.....	72,112	—
Changes in non-cash working capital:		
Accounts receivable and other.....	(26,594)	(259,909)
Accounts payable and accrued liabilities .....	15,131	36,650
Cash used in operating activities .....	<u>(639,450)</u>	<u>(467,692)</u>
Financing activities:		
Funding received from parent for operations and purchase of mineral properties.....	<u>5,465,005</u>	<u>1,142,793</u>
Cash provided by financing activities.....	<u>5,465,005</u>	<u>1,142,793</u>
Investing activities:		
Purchase of capital equipment.....	(584,257)	(282,796)
Nevada Eagle Resources acquisition .....	(886,399)	—
Purchase of marketable securities and long term investments.....	(520,950)	—
Investment in Turkish Properties.....	(2,187,512)	—
Interest in exploration properties and deferred exploration expenditures .....	<u>(788,788)</u>	<u>(162,991)</u>
Cash used in investing activities .....	<u>(4,967,906)</u>	<u>(445,787)</u>
(Decrease) increase in cash and cash equivalents.....	(142,351)	229,314
Cash, beginning of year .....	229,314	—
Cash, end of year.....	<u>\$ 86,963</u>	<u>\$ 229,314</u>

There are no non-cash investing or financing activities

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

**EXPLORATION PROPERTIES BUSINESS OF FRONTEER GOLD INC.**

**Statement of Equity and Deficit  
(Expressed in Canadian dollars)**

	<u>Contributed Surplus</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Accumulated Deficit</u>	<u>Total Equity</u>
	\$	\$	\$	\$
Balance as at December 31, 2009.....	4,824,863	—	(2,295,134)	2,529,729
Funding provided and expenses paid by Fronteer Gold and its subsidiaries .....	1,002,372	—	—	1,002,372
Net assets contributed by Fronteer Gold and its subsidiaries .....	4,656,287	—	—	4,656,287
Unrealized loss on long-term investments .....	—	(8,771)	—	(8,771)
Net loss for the period .....	—	—	(1,406,328)	(1,406,328)
Balance as at December 31, 2010.....	<u>10,483,522</u>	<u>(8,771)</u>	<u>(3,701,462)</u>	<u>6,773,289</u>

**Consolidated Statement of Comprehensive Loss**

	<u>2010</u>	<u>2009</u>
	\$	\$
Net loss for the year.....	(1,406,328)	(1,764,021)
Other comprehensive items:		
Unrealized loss on long-term investments .....	(8,771)	—
Total comprehensive loss.....	<u>(1,415,099)</u>	<u>(1,764,021)</u>

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

## **EXPLORATION PROPERTIES BUSINESS OF FRONTEER GOLD INC.**

### **Notes to the Consolidated Financial Statements**

For the year ended December 31, 2010

(Expressed in Canadian Dollars)

#### **1. TRANSFER OF ASSETS AND BASIS OF PRESENTATION**

On February 3, 2011, Pilot Gold Inc. ("Pilot Gold") and Fronteer Gold Inc. ("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 in cash and 0.25 of a common share of Pilot Gold (after a one for four share consolidation of Pilot Gold) for each common share of Fronteer.

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. Five properties have already been transferred to Pilot Gold (including four that will remain with Pilot Gold 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 the Exploration Properties Business to be transferred to Pilot Gold 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, equity and deficit, and cash flows of the Exploration Properties Business as if Pilot Gold had been an independent operator during the years reported. The statements of operations and comprehensive loss for the years ended December 31, 2010 and 2009 include the direct general and administrative incurred by Fronteer on the carved-out exploration properties and a pro-rata allocation of Fronteer's general and administrative expenses incurred in each of these years. 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 the Exploration Properties Business's future operating expenses.

The allocation of those items of general and administrative expense not directly chargeable to the Exploration Properties Business was allocated using the percentage derived from using total exploration expenditures incurred on the Exploration Properties Business exploration properties over Fronteer's total exploration and development expenditures. All office equipment owned by Fronteer utilized in Vancouver, British Columbia, Turkey and Elko, Nevada, except those related to Long Canyon and Northumberland are also included in the operations of the Exploration Properties Business. 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 Exploration Properties Business is an exploration stage business engaged in the acquisition and exploration of mineral properties located in Nevada and Turkey.

The Exploration Properties Business has not yet determined whether its properties contain mineral reserves that are economically recoverable. The continued operations of the Exploration Properties Business and the recoverability of the amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Exploration Properties Business 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.



The Exploration Properties Business has sustained recurring losses and negative cash flows from operations. At December 31, 2010, the Exploration Properties Business has \$86,963 in cash and cash equivalents. The Exploration Properties Business has an ongoing requirement for investment to fund exploration of its mineral properties. The Exploration Properties Business 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. Following completion of the Arrangement, the Exploration Properties Business will be capitalized with approximately \$9,640,000 in cash.

### **3. SIGNIFICANT ACCOUNTING POLICIES**

#### ***Basis of presentation***

The accounting policies of the Exploration Properties Business 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 Exploration Properties Business and its significant wholly-owned subsidiaries. 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, impairment of exploration properties and deferred exploration expenditures and the fair value of long term investments. 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 Exploration Properties Business 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 Exploration Properties Business 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 Exploration Properties Business's performance could have a material effect on the Exploration Properties Business'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.

### ***Equipment and Amortization***

Equipment is stated at historical cost less amortization. The equipment noted below is amortized over its estimated useful life using the following annual rates and methods:

Computer equipment .....	30%	Declining balance
Computer software .....	50%	Straight line
Field equipment .....	20%	Declining balance
Furniture and fixtures .....	20%	Declining balance
Leasehold improvements .....		Term of lease
Automotive equipment .....	30%	Declining balance

Amortization of assets used in exploration is capitalized to deferred exploration expenditures.

### ***Foreign Currency Translation***

These financial statements are denominated in Canadian dollars, the Exploration Properties Business’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 Exploration Properties Business's financial instruments primarily consist of cash, accounts receivable, accounts payable (classified as other financial liabilities), Long term investments (classified as available for sale) and investments in warrants (classified as held for trading). The fair value approximates their carrying values (except for Long term investments and investments in warrants which are carried at fair value).

Comprehensive income comprises the Exploration Properties Business's net income and other comprehensive income. Comprehensive income represents changes in shareholders' equity during a period arising from non-owner sources.

Financial instruments are recognized on the balance sheet when the Exploration Properties Business has become party to the contractual provisions of the instruments.

#### 4. PROPERTY AND EQUIPMENT

	2010			2009		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
	\$	\$	\$	\$	\$	\$
Equipment.....	874,008	458,086	415,922	685,209	327,558	357,651
Computer software.....	544,378	473,344	71,034	416,811	361,553	55,258
Furniture and fixtures.....	329,207	147,997	181,210	313,296	104,928	208,368
Leasehold improvements.....	538,009	243,773	294,236	286,029	130,263	155,766
	<u>2,285,602</u>	<u>1,323,200</u>	<u>962,402</u>	<u>1,701,345</u>	<u>924,302</u>	<u>777,043</u>

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

#### 5. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

	Total December 31, 2009	Additions	Transferred to Equity Interest	Total December 31, 2010
	\$	\$	\$	\$
<b>USA</b>				
Anchor.....	—	158,544	—	158,544
Baxter Spring.....	—	167,603	—	167,603
Easter.....	—	150,135	—	150,135
Gold Springs 2.....	—	250,225	—	250,225
New Boston.....	—	335,344	—	335,344
Stateline.....	—	150,135	—	150,135
Viper.....	120,550	215,869	—	336,419
	<u>120,550</u>	<u>1,427,855</u>	<u>—</u>	<u>1,548,405</u>
<b>TURKEY</b>				
TV Tower.....	36,698	63,561	(100,259)	—
Isper.....	165,424	6,829	—	172,253
Aktarma.....	57,936	6,993	—	64,929
Yuntdag.....	3,363	8,339	—	11,702
	263,421	85,722	(100,259)	248,884
<b>PERU</b>	—	175,472	—	175,472
	—	175,472	—	175,472
	<u>383,971</u>	<u>1,689,049</u>	<u>(100,259)</u>	<u>1,972,761</u>

	USA	Turkey	Peru	Total
	\$	\$	\$	\$
December 31, 2009.....	120,550	263,421	—	383,971
2010 expenditures:				
Acquisition costs.....	909,855	—	—	909,855
Assaying & geochemical.....	127,092	1,203	—	128,295
Option payments.....	—	—	156,285	156,285
Camp & field costs.....	7,131	—	—	7,131
Geophysics.....	66,662	—	—	66,662
Transportation.....	10,719	12,380	—	23,099
Wages, consulting and management fees.....	225,063	18,940	19,187	263,190
Claim maintenance and advance royalty fees.....	65,905	—	—	65,905
Environmental.....	5,883	—	—	5,883
Other.....	9,545	53,199	—	62,744
	<u>1,427,855</u>	<u>85,722</u>	<u>175,472</u>	<u>1,689,049</u>
Transferred to Equity Interest.....	—	(100,259)	—	(100,259)
	—	<u>(100,259)</u>	—	<u>(100,259)</u>
December 31, 2010.....	<u>1,548,405</u>	<u>248,884</u>	<u>175,472</u>	<u>1,972,761</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). In addition to the four properties transferred to Pilot Gold in 2010, six additional Nevada Eagle properties are being transferred to the Exploration Properties Business of Fronteer in connection with the Arrangement, forming part of the Exploration Properties Business.

#### ***Easter***

The property is subject to an earn-in joint venture with La Quinta Resource Corp. (“La Quinta”), whereby La Quinta can earn 65% by spending \$2 million on exploration prior to January 4, 2015. La Quinta must maintain the claims, and pay annual cash payments totaling \$190,000 over the 5 year term of the agreement, plus 500,000 La Quinta common shares. The Exploration Properties Business retains a net smelter royalty of 2.5% — 4% depending upon the price of gold.

#### ***Gold Springs 2***

The property is under option to High Desert Gold Inc. (“HDG”) whereby HDG can earn 60% interest in the project by spending \$1,000,000 in aggregate by January 10, 2015, plus making cash payments to Pilot Gold which escalate from \$20,000 to \$40,000 per year. At earn-in, Pilot Gold can either elect to participate at 40% or less, or revert to a \$40,000 per year payment plus a sliding scale NSR, which is based on the gold price. Pilot Gold retains a net smelter royalty of 2.5% — 4% depending upon the price of gold. A 4% royalty on four claims is payable to a third party.

#### ***Rae Wallace Option — Peru***

In the third quarter of 2010, the Exploration Properties Business paid US\$150,000 for a three year option to earn a 51% interest in up to two properties within a 23,500-square-kilometre area in Peru that Rae Wallace currently owns or acquires. To earn a 51% interest in a property, the Exploration Properties Business must spend the greater of US\$150,000 or three times Rae Wallace’s expenditures on the property, from the date of the agreement. In addition, should Rae Wallace wish to joint venture any other project in this area of interest, it must first offer Pilot Gold the joint venture opportunity.

#### ***Pirentepe***

During 2009, the Exploration Properties Business wrote off \$1,085,436 of exploration properties and deferred exploration expenditures for the Pirentepe project, due to unsatisfactory exploration results and uncertainty of plans for the project.

## 6. EQUITY INVESTMENTS IN TURKISH PROPERTIES

### *Halilaga and TV Tower Properties*

The Exploration Properties Business owns 40% of the HalilaNa project through a 40% ownership stake in a Turkish company, controlled (60%) by a Turkish subsidiary (“TMST”) of Teck Resources Limited. A separate Turkish company, also owned 40% by the Exploration Properties Business and 60% by TMST, holds other mineral interests in northwestern Turkey, including the TV Tower property. The Exploration Properties Business accounts for these investments as equity investments. The book value of these investments are \$2,343,283 and \$743,738, respectively.

Under the equity method of accounting, the Exploration Properties Business’s percentage interest in the net assets and results of operations of the projects are presented in a single line on the balance sheet as “Investment in Turkish Properties” and in the statement of operations as “Equity income from Turkish Properties”, respectively. For the Halilaga and TV Tower properties the Exploration Properties Business has transferred the expenditures it has incurred from “Exploration properties and deferred exploration expenditures” to “Investment in Turkish Properties”.

## 7. LONG TERM INVESTMENTS

The Exploration Properties Business, from time to time, may make strategic investments in other private or publicly traded entities. These investments are treated as long-term investments and may take the form of common shares and share purchase warrants.

For accounting purposes, the Exploration Properties Business has determined that any share purchase warrants held are derivative financial instruments and any change in fair value is included in earnings for the period. The fair value of share purchase warrants is measured using the Black-Scholes option pricing model that uses inputs that are corroborated with the market wherever possible. Any common shares (equities) held are designated as available-for-sale and any change in fair value is included in other comprehensive income, until such time as the common shares are sold or otherwise disposed of at which time any gains or losses will be included in earnings for the period.

Inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement are summarized in the three level hierarchies below:

- Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2 — Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 — Inputs that are not based on observable market data.

The following table illustrates the classification of the Exploration Properties Business’s financial instruments with the fair value hierarchy as at December 31, 2010 (\$nil in 2009)

	Financial assets at fair value as at December 31, 2010			
	Level 1	Level 2	Level 3	Total
	\$	\$	\$	\$
Rae Wallace common shares (2,000,000 common shares) .....	380,076	—	—	380,076
Rae Wallace share purchase warrants (1,000,000 warrants) .....	—	39,141	—	39,141
	<u>380,076</u>	<u>39,141</u>	<u>—</u>	<u>419,217</u>

By way of a non-brokered private placement, the Exploration Properties Business acquired 2,000,000 units of Rae Wallace at US\$0.25 per unit. Each unit consists of one common share and one-half of one share purchase warrant. Each whole warrant entitles the Exploration Properties Business to acquire one additional common share of Rae Wallace for US\$0.375 per share until September 30, 2012.

## 8. 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% (2009 - 30.0%)

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	\$	\$
Loss before taxes.....	<u>(1,406,355)</u>	<u>(1,763,779)</u>
Expected income tax recovery .....	(400,811)	(529,134)
Permanent differences:		
Non deductible items for tax purposes.....	47,168	8,238
Foreign exchange .....	5,458	7,423
Effect of foreign tax rates .....	37,327	128,615
Changes in enacted and substantively enacted rates.....	11,248	15,858
Other.....	2,714	3,153
Change in valuation allowance .....	<u>296,869</u>	<u>366,089</u>
Income tax expense (recovery) .....	<u>(27)</u>	<u>242</u>

### b) Future tax balances:

	<u>December 31,</u> <u>2010</u>	<u>December 31,</u> <u>2009</u>
	\$	\$
Future income tax assets (liabilities):		
Operating losses carried forward.....	983,584	387,571
Equipment.....	227,219	165,289
Mineral properties .....	(407,655)	(33,890)
Investments.....	12,717	—
Valuation allowance .....	<u>(818,522)</u>	<u>(521,652)</u>
	<u>(2,657)</u>	<u>(2,682)</u>

The tax basis of the Exploration Properties Business assets and liabilities were derived from the tax basis of Fronteer. Loss carryforwards were estimated based on an allocation of Fronteer's expenses to the Exploration Properties Business. There are no income taxes owed by the Exploration Properties Business at December 31, 2010.

## 9. CAPITAL DISCLOSURES

The Exploration Properties Business considers the items included in the consolidated statement of shareholder's equity as capital. The Exploration Properties Business 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 Exploration Properties Business may issue new shares through private placements or return capital to shareholders. The Exploration Properties Business is not subject to externally imposed capital requirements.

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

## 10. FINANCIAL RISK MANAGEMENT

### *Financial Risk Management*

The Exploration Properties Business is exposed in varying degrees to a variety of financial instrument related risks. The Exploration Properties Business'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 Exploration Properties Business's credit risk is primarily attributable to its liquid financial assets. The Exploration Properties Business 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 Exploration Properties Business manages its capital in order to meet short term business requirements, after taking into account cash flows from operations, expected capital expenditures and the Exploration Properties Business's holdings of cash and cash equivalents. The Exploration Properties Business believes that these sources will be sufficient to cover the likely short term requirements. In the long term, the Exploration Properties Business may have to issue additional shares to ensure there is sufficient capital to meet long term objectives. The Exploration Properties Business's cash is invested in business bank accounts and is available on demand for the Exploration Properties Business's programs, and is not invested in any asset backed deposits/investments. The Exploration Properties Business'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.

### ***Market Risk***

The significant market risks to which the Exploration Properties Business is exposed are foreign exchange risk and interest rate risk. These are further discussed below:

#### ***Foreign Exchange Risk***

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

Financial instruments that impact our net loss or other comprehensive loss due to currency fluctuations include US dollar denominated cash. The sensitivity of our net income and other comprehensive income due to a 10% change in the exchange rate between the US dollar and the Canadian dollar is \$8,621.

#### ***Interest Rate Risk***

The Exploration Properties Business is exposed to interest rate risk on its outstanding short term investments. The Exploration Properties Business's policy is to invest cash at floating interest rates and cash reserves are to be maintained in cash equivalents in order to maintain liquidity, while achieving a satisfactory return for shareholders. The Exploration Properties Business monitors this exposure and does not enter into any derivative contracts to manage this risk.

Our interest rate risk mainly arises from the interest rate impact on our cash and cash equivalents. Cash and cash equivalents receive interest based on market interest rates. Based on cash and cash equivalents outstanding at December 31, 2009, with other variables unchanged, a 1% change in the interest rate would decrease (increase) our net loss by \$58. There would be no significant effect on other comprehensive income.

The Exploration Properties Business's financial liabilities are not exposed to interest rate risk.

#### ***Fair Value Estimation***

The carrying value of the Exploration Properties Business's financial assets and liabilities approximates or equals their estimated fair value (see Note (3)).

## 11. COMMITMENTS

The Exploration Properties Business has entered into operating leases for premises and office equipment. Total minimum operating lease commitments approximate \$2,511,003. Minimum rental commitments for the following years are as follows:

<u>Year</u>	<u>Amount</u>
	\$
2011.....	368,061
2012.....	348,347
2013.....	286,026
2014.....	280,473
2015.....	286,985
2016+.....	941,111
	<u>2,511,003</u>

## 12. SEGMENT INFORMATION

The Exploration Properties Business has four geographical segments: Canada, United States, Turkey and Peru. The total assets attributable to the geographical locations relate primarily to its exploration properties and deferred exploration expenditures and have been disclosed in Notes 5 and 6. The net loss relating to the operations in Canada, Turkey, United States and Peru totalled \$(725,913), \$(492,172), \$(188,243) and \$nil respectively for the year ended December 31, 2010. Property and equipment are distributed geographically as follows:

	<u>December 31,</u>	
	<u>2010</u>	<u>2009</u>
	\$	\$
Canada.....	421,056	470,037
USA.....	507,556	263,176
Turkey.....	33,790	43,830
Peru.....	—	—
	<u>962,402</u>	<u>777,043</u>