

Condensed Interim Consolidated Financial Statements

**Pilot Gold Inc.**

(Expressed in US Dollars)

Nine months ended September 30, 2011

(unaudited)

**PILOT GOLD INC.**

**Condensed interim consolidated statements of loss and comprehensive loss**  
(Expressed in US Dollars - unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
	\$	\$	\$	\$
<b>Continuing operations</b>				
Operating expenses				
Stock based compensation (Note 11)	473,077	26,598	5,335,155	177,976
Property investigation	778,726	-	1,147,854	-
Wages and benefits	298,682	59,737	908,401	215,630
Office and general	366,491	43,255	867,667	163,239
Listing and filing fees	25,009	-	302,225	-
Professional fees	59,709	11,307	320,714	84,434
Amortization	99,880	107,212	321,286	277,548
Investor relations, promotion and advertising	100,373	6,922	190,625	24,315
<b>Loss from operations</b>	<b>2,201,947</b>	<b>255,031</b>	<b>9,393,927</b>	<b>943,142</b>
Other income (expenses)				
Write down of assets held for sale (Note 6(c))	-	-	(137,984)	-
Change in fair value of financial instruments (Note 8)	(18,254)	(38,036)	(32,275)	(38,036)
Other expenses (Note 5)	(317,275)	-	(340,065)	-
Loss on disposal and write down of plant and equipment (Note 7)	(95,105)	-	(115,217)	-
Income (loss) from associates (Note 9)	6,461	(8,243)	6,770	(72,222)
Finance income (charges)	90,471	-	136,270	-
Foreign exchange gains (losses)	142,169	97	183,796	(12,904)
	(191,533)	(46,182)	(298,705)	(123,162)
<b>Loss before tax</b>	<b>(2,393,480)</b>	<b>(301,213)</b>	<b>(9,692,632)</b>	<b>(1,066,304)</b>
Income tax (expense) recovery	335,860	7,080	(48,878)	1,509
<b>Loss for the period</b>	<b>(2,057,620)</b>	<b>(294,133)</b>	<b>(9,741,510)</b>	<b>(1,064,795)</b>
<b>Other comprehensive income (loss)</b>				
Exchange differences on translating foreign operations	(2,373,045)	54,662	(2,079,757)	57,537
Net fair value loss on financial assets (Note 8)	(48,568)	11,230	(82,151)	11,230
<b>Other comprehensive income (loss) for the period, net of tax</b>	<b>(2,421,613)</b>	<b>65,892</b>	<b>(2,161,908)</b>	<b>68,767</b>
<b>Total loss and comprehensive loss for the period</b>	<b>(4,479,233)</b>	<b>(228,241)</b>	<b>(11,903,418)</b>	<b>(996,028)</b>
<b>Loss per share</b>				
From continuing operations				
Basic and diluted	\$ (0.03)	\$ -	\$ (0.26)	\$ (0.03)
Common shares				
Basic and diluted (Notes 1 and 11)	59,040,261	59,040,261	37,177,173	37,177,173

**PILOT GOLD INC.**  
**Condensed interim consolidated statements of financial position**  
**(Expressed in US Dollars - unaudited)**

	As at September 30, 2011	As at December 31, 2010
	<u>\$</u>	<u>\$</u>
<b>Assets</b>		
<i>Current assets</i>		
Cash	12,293,601	86,966
Short term investments	10,685,097	-
Receivables (Note 5)	160,534	265,113
Prepayments	220,593	21,389
Assets held for sale (Notes 6(a) and 6(c))	91,918	27,724
Total current assets	<u>23,451,743</u>	<u>401,192</u>
<i>Non-current assets</i>		
Exploration properties and deferred exploration expenditures (Note 6)	7,504,717	3,053,770
Plant and equipment (Note 7)	722,236	930,888
Reclamation deposits	250,189	12,858
Other financial assets (Note 8)	429,139	419,133
Investment in associates (Note 9)	6,562,158	3,087,329
Total non-current assets	<u>15,468,439</u>	<u>7,503,978</u>
<b>Total assets</b>	<u>38,920,182</u>	<u>7,905,170</u>
 <b>Liabilities and Shareholders' Equity</b>		
<i>Current liabilities</i>		
Accounts payable and other liabilities (Note 10)	1,655,442	74,807
Deferred consideration on the sale of properties (Note 6(c))	107,313	-
Total current liabilities	<u>1,762,755</u>	<u>74,807</u>
<i>Non-current liabilities</i>		
Deferred tax liabilities	51,428	2,550
Total non-current liabilities	<u>51,428</u>	<u>2,550</u>
<i>Shareholders' equity</i>		
Share capital (Note 11)	92,095,886	1,215,000
Contributed surplus (Note 11)	5,845,879	10,016,247
Accumulated other comprehensive income (loss)	(1,931,587)	230,321
Accumulated deficit	(58,904,179)	(3,633,755)
Total shareholders' equity	<u>37,105,999</u>	<u>7,827,813</u>
<b>Total liabilities and shareholders' equity</b>	<u>38,920,182</u>	<u>7,905,170</u>
 Commitments (Note 12)		
Segment information (Notes 6 and 13)		
Related party transactions (Note 14)		

These financial statements are approved by the board and authorised for issue on November 9, 2011:

"Donald McInnes", Director

"Sean Tetzlaff", Director

**PILOT GOLD INC.****Condensed interim consolidated statements of changes in equity****(Expressed in US Dollars - unaudited)**

	Number of shares	Share capital	Contributed surplus	Accumulated other comprehensive (loss) income	Accumulated deficit	Total
	#	\$	\$	\$	\$	\$
Balance as at January 1, 2010	-	-	4,340,689	186,380	(2,126,553)	2,400,516
Funding and expenses paid by Fronteer and its subsidiaries (Note 1)	-	-	756,151	-	-	756,151
Net assets contributed by Fronteer and its subsidiaries (Note 1)	-	-	4,489,589	-	-	4,489,589
Unrealized loss on long-term investments	-	-	-	11,230	-	11,230
Cumulative translation adjustment	-	-	-	57,537	-	57,537
Net loss for the period	-	-	-	-	(1,064,795)	(1,064,795)
Balance as at September 30, 2010	-	-	9,586,429	255,147	(3,191,348)	6,650,228
Balance as at January 1, 2011	2,500,000	1,215,000	10,016,247	230,321	(3,633,755)	7,827,813
Funding and expenses paid by Fronteer and its subsidiaries (Note 1)	-	-	10,131,534	-	-	10,131,534
Net assets contributed by Fronteer and its subsidiaries (Note 1)	-	-	46,485,989	-	-	46,485,989
Adjustment for shares issued in connection with the Fronteer Arrangement (Note 11)	-	-	(66,633,770)	-	(45,528,914)	(112,162,684)
Shares issued pursuant to the Fronteer Arrangement	48,201,952	66,633,770	-	-	-	66,633,770
Unrealized loss on long-term investments	-	-	-	(82,151)	-	(82,151)
Shares issued as a result of financing	8,333,334	25,810,450	-	-	-	25,810,450
Share issue costs	-	(1,663,474)	-	-	-	(1,663,474)
Shares issued as consideration for option on mineral property (Note 6(b))	50,000	100,140	-	-	-	100,140
Cumulative translation adjustment	-	-	-	(2,079,757)	-	(2,079,757)
Stock based compensation	-	-	5,845,879	-	-	5,845,879
Net loss for the period	-	-	-	-	(9,741,510)	(9,741,510)
Balance as at September 30, 2011	59,085,286	92,095,886	5,845,879	(1,931,587)	(58,904,179)	37,105,999

**PILOT GOLD INC.**  
**Consolidated statements of cash flows**  
**(Expressed in US Dollars - unaudited)**

	Nine months ended September 30,	
	2011	2010
	\$	\$
<b>Cash flows from operating activities</b>		
Loss for the period	(9,741,510)	(1,064,795)
Adjusted for:		
Stock based compensation	5,335,155	177,976
Stock based compensation included in Property Investigation	282,160	-
Amortization	321,286	277,548
Write-down of assets held for sale	137,984	-
Write-down of VAT receivable (Note 5)	290,110	-
Change in fair value of financial instruments	32,275	38,036
Non-cash other income	(23,821)	-
Loss on disposal of property and equipment	115,217	-
Income from associates	(6,770)	-
Foreign exchange	(183,796)	12,904
Deferred income taxes	48,878	1,509
Movements in working capital:		
Accounts receivable and prepayments	(29,159)	(16,249)
Accounts payable and other liabilities	289,961	23,829
Net cash used by operating activities	<u>(3,132,030)</u>	<u>(549,242)</u>
<b>Cash flows from financing activities</b>		
Funding received from Fronteer for operations	1,176,472	4,492,864
Net cash received from financing	25,810,450	-
Share issue costs	(1,663,474)	-
Cash received pursuant to the Fronteer Arrangement	9,819,540	-
Net cash generated by financing activities	<u>35,142,988</u>	<u>4,492,864</u>
<b>Cash flows from investing activities</b>		
Change in working capital attributable to deferred exploration expenditures	345,491	9,645
Purchase of short term investments	(10,548,827)	-
Purchase of property and equipment	(171,632)	(516,581)
Proceeds from sale of capital equipment	5,321	-
Investment in Associates	(2,578,599)	(1,224,688)
Acquisition of mineral properties	(350,000)	(1,675,000)
Interest in exploration properties and deferred exploration expenditures	(4,494,573)	(708,458)
Recoveries on mineral properties	140,000	-
Purchase of reclamation deposits	(250,000)	-
Net cash used by investing activities	<u>(17,902,819)</u>	<u>(4,115,082)</u>
Effect of foreign exchange rates	<u>(1,901,504)</u>	<u>9,353</u>
Net increase (decrease) in cash and cash equivalents	12,206,635	(162,107)
Cash at beginning of period	86,966	218,526
Cash at end of the period	<u>12,293,601</u>	<u>56,419</u>

## **PILOT GOLD INC.**

**(An exploration stage company)**

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

Nine months ended September 30, 2011

(Expressed in United States Dollars, unless otherwise noted - unaudited)

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#### **1. GENERAL INFORMATION**

Pilot Gold Inc. ("Pilot Gold", or the "Company"), is incorporated and domiciled in Canada, and its registered office is at Suite 1650 – 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9.

The Company was incorporated as "7703627 Canada Inc." on November 18, 2010, under the Canada Business Corporations Act. Articles of amendment were subsequently filed on November 29, 2010, to change the name of the Company to Pilot Gold Inc.

On February 3, 2011, Pilot Gold, Fronteer Gold Inc. ("Fronteer"), and Newmont Mining Corporation ("Newmont") entered into an arrangement agreement ("Arrangement Agreement") pursuant to which Newmont acquired all of the outstanding common shares of Fronteer by way of a plan of arrangement (the "Fronteer Arrangement"), which became effective on April 6, 2011. At that time, Pilot Gold ceased to be a wholly-owned subsidiary of Fronteer.

The shareholders of Fronteer approved the Fronteer Arrangement at a special meeting held on March 30, 2011. Pursuant to the Fronteer Arrangement, subsidiaries of Fronteer transferred to Pilot Gold the following assets and liabilities in exchange for the issuance of 192,807,707 common shares of Pilot Gold ("pre-consolidation common shares"). In connection with the Fronteer Arrangement, the pre-consolidation common shares were immediately consolidated on a one-for-four basis (the "Common Shares"):

- i. unpatented mining claims known as the Anchor, Baxter Springs, New Boston, Stateline, Easter, Viper and Gold Springs 2 projects to Pilot Gold USA Inc. ("Pilot USA"), in exchange for (i) \$1.1 million, and (ii) the transfer by way of assignment back to Fronteer of the South Monitor property;
- ii. certain assets and liabilities in Elko, NV, including office equipment and furniture, fixed assets, computer hardware and software, and certain technical data related to the exploration properties transferred in exchange for \$795,632;
- iii. all of the issued and outstanding shares of Pilot Investments Inc. ("PII") (formerly, Fronteer Investment Inc.) for a purchase price equal to the fair value of PII's shares (approximately \$52.25 million), which holds the respective 40% interests in Orta Truva Maden Isletmeleri A.Ş. ("Orta Truva") and Truva Bakir Maden Isletmeleri A.Ş. ("Truva Bakir") the legal joint venture entities that hold the TV Tower Project and the Halılağa Project;
- iv. 2,000,000 common shares in the capital of Rae Wallace Mining Company ("Rae Wallace"), 1,000,000 warrants to purchase common shares of Rae Wallace, the option to earn a 51% interest in up to two properties that Rae Wallace own or acquires; and
- v. C\$9.58 million (\$9.82 million) in cash, a 40% beneficial interest in the Dededagi exploration property in Turkey, and the physical assets of the Vancouver office.

The approval of the Fronteer Arrangement has been determined for accounting purposes to represent substantive completion of the transaction; as such, March 30, 2011 is the deemed effective date (the "Effective Date") of the Fronteer Arrangement for consolidated financial statement reporting purposes.

Pursuant to the Fronteer Arrangement, Fronteer shareholders received \$14.00 in cash and one pre-consolidation common share for each common share of Fronteer. Immediately following closing of the Fronteer Arrangement, approximately 80.1% of Pilot Gold was held by former shareholders of Fronteer, and 19.9% was held by Newmont. The Common Shares began trading on the TSX on April 11, 2011 under the symbol "PLG".

**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Condensed Interim Consolidated Financial Statements**

Nine months ended September 30, 2011

(Expressed in United States Dollars, unless otherwise noted - unaudited)

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**2. NATURE OF OPERATIONS**

Pilot Gold is an exploration stage business engaged in the acquisition and exploration of mineral properties located primarily in the United States and Turkey. The Company is focused on the acquisition, exploration and development of mineral resource properties located in attractive mining jurisdictions.

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 September 30, 2011, the Company has \$22.9 million in cash and short-term investments. The Company has an ongoing requirement to fund exploration activities incurred on the properties held by its associates (note 9) to maintain its interest in Orta Truva, Truva Bakir and Gold Springs LLC respectively. The Company expects that cash and short-term investments available will be sufficient to satisfy the Company's cash requirements for general and administrative expenses, to pursue its committed exploration programs, meet committed expenditures (notes 9 and 12) and advance other strategic opportunities as they arise in the next twelve months.

The Company's interim results are not necessarily indicative of its results for a full year.

**3. BASIS OF PRESENTATION AND FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")**

Pilot Gold prepares its financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants (the "CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS, and require publicly accountable enterprises to apply such standards effective for periods beginning on or after January 1, 2011. Accordingly, these are the Company's third unaudited condensed interim consolidated financial statements for part of the period covered by the Company's first IFRS annual consolidated financial statements. IFRS represents standards and interpretations approved by the International Accounting Standards Board ("IASB"), and are comprised of IFRS, International Accounting Standards ("IAS"), and interpretations issued by the IFRS Interpretations Committee ("IFRIC") or the former Standing Interpretations Committee ("SIC"). In these condensed interim consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS.

These unaudited condensed interim consolidated financial statements have been prepared in accordance with IFRS applicable to the preparation of interim financial statements, including IAS 34, *Interim Financial Reporting* and on the basis of IFRS standards and interpretations issued and outstanding as of November 9, 2011, the date the Board of Directors approved the statements (the "Board").

The basis of preparation of these unaudited condensed interim consolidated financial statements is different to the audited annual consolidated financial statements of Pilot Gold for the period April 23, 2010 to December 31, 2010 and those of the Exploration Properties Business of Fronteer Gold Inc. (the "Exploration Properties Business") for the year ended December 31, 2010, each prepared in accordance with Canadian GAAP due to the first time adoption of IFRS, and to a change in the Company's presentation currency from the Canadian dollar ("C\$") to United States dollars.

IFRS 1 – *First-time Adoption of International Financial Reporting Standards* ("IFRS 1") governs the first-time adoption of IFRS. IFRS 1 in general requires accounting policies under IFRS to be applied retrospectively to determine the Company's opening statement of financial position as of the transition date of January 1, 2010, and allows certain exemptions. The Company has elected not to apply any of the optional IFRS 1 elections, and has applied IFRS fully retrospectively.

**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Condensed Interim Consolidated Financial Statements**

Nine months ended September 30, 2011

(Expressed in United States Dollars, unless otherwise noted - unaudited)

**3. BASIS OF PRESENTATION AND FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)**

An explanation of how the transition to IFRS with a transition date of January 1, 2010 has affected the reported financial position and financial performance of the Company is provided in note 15. Included therein are reconciliations of the Company’s condensed consolidated statements of financial position and statements of loss and comprehensive loss for comparative periods prepared in accordance with Canadian GAAP and as previously reported to those prepared and reported in these unaudited condensed interim consolidated financial statements in accordance with IFRS.

As these unaudited condensed interim consolidated financial statements do not contain all the disclosures required by IFRS for annual financial statements they should be read in conjunction with the condensed interim consolidated financial statements for the three months ended March 31, 2011. For a summary of the Company’s accounting policies under IFRS, refer to note 4 of the Company’s condensed interim consolidated financial statements for the three months ended March 31, 2011. These accounting policies have been applied on a consistent basis to all periods presented. For a summary of the effects of IFRS adoption on the Company’s consolidated statement of financial position as at January 1, 2010, refer to note 18 of the Company’s condensed interim consolidated financial statements for the three months ended March 31, 2011.

*Change in reporting currency*

Effective January 1, 2010, the Company changed its reporting currency to the United States dollar. The change in reporting currency is to better reflect the Company’s business activities and to improve investors’ ability to compare the Company’s financial results with those of other publicly traded businesses in the gold mining industry. Prior to January 1, 2010, Pilot Gold and the Exploration Properties Business reported their respective consolidated statements of financial position and related consolidated statements of loss and comprehensive loss, statements of changes in equity and cash flows in Canadian dollars. The change to the Company’s reporting currency has been accounted for in accordance with IAS 21 - *The Effects of Changes in Foreign Exchange Rates*. Income and expenses have been translated at the average exchange rate for each period and assets, liabilities and equity have been translated at the closing exchange rate at each balance sheet date. The effects of this change have been applied fully retrospectively. All resulting exchange differences are reported as a separate component of shareholders’ equity titled “Cumulative Translation Adjustment”.

*Continuity of interest*

As the shareholders of Fronteer continued to hold their respective interests in Pilot Gold; there was no resultant change of control in either the Company, or the assets and business acquired. The Fronteer Arrangement has thus been determined to be a common control transaction, and has been accounted for on a continuity of interest basis.

In accordance with the continuity of interest basis of accounting, these unaudited condensed interim consolidated financial statements reflect the assets, liabilities, operations and cash flows of Pilot Gold and those of the Exploration Properties Business as if Pilot Gold and the Exploration Properties Business had always been the combined entity, operating independently of Fronteer, through to the Effective Date.

Assets, liabilities, operations and cash flows recorded in the condensed interim consolidated financial statements for the nine-month period ended September 30, 2011 reflect cash flows, expenditures and activities of Pilot Gold accounted for in accordance with the continuity of interest basis through March 30, 2011 and the actual cash flows, expenditures and activities of Pilot Gold from March 31, 2011 through to September 30, 2011. Accordingly, these condensed interim consolidated financial statements should be read in conjunction with the consolidated annual financial statements of Pilot Gold and of the Exploration Properties Business, respectively.

The percentage derived from the total exploration expenditure, up to the Effective Date, incurred by Fronteer through each respective period on Pilot Gold’s properties, over Fronteer’s total exploration and development expenditures for those same periods, was used to determine the appropriate balance to record in these condensed interim consolidated financial statements for those items of general and administrative expenses, wages and salaries stock based compensation and other overhead costs not directly chargeable to the Company through to March 30, 2011. Fronteer’s funding of the carved-out exploration asset and liabilities and past carved-out operations through March 30, 2011 is presented as contributed surplus.



**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Condensed Interim Consolidated Financial Statements**

Nine months ended September 30, 2011

(Expressed in United States Dollars, unless otherwise noted - unaudited)

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**3. BASIS OF PRESENTATION AND FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”) (continued)**

Because the balances presented are based on the amounts recorded by Fronteer as if Pilot Gold had been an independent operator through March 30, 2011, management cautions readers of these unaudited condensed interim consolidated financial statements, that the allocation of expenses in the statements of loss for the current and comparative periods does not necessarily reflect the nature and level of the Company’s future operating expenses.

*Significant Accounting Judgments and Estimates*

The preparation of Pilot Gold’s consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are periodically evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

However, actual outcomes can differ from these estimates. In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described below.

- (i) Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs

The application of Pilot Gold’s accounting policy for exploration and evaluation expenditures requires judgement in determining whether it is likely that future economic benefits are likely, which may be based on assumptions about future events or circumstances, including geologic and metallurgic information, potential for conversion of mineral deposits to proven and probable reserves, the outcome of scoping and feasibility studies, accessible facilities, existing permits and life of mine plans. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalised is written off in the income statement in the period when new information becomes available.

- (ii) Contingencies

Reflective of the type of business conducted by the Company, particularly the exploration of properties in different geographic jurisdictions, various legal and tax matters may be outstanding from time to time. In the event that management’s estimate of the future resolution of these matters changes, Pilot Gold will recognize the effects of the changes in its consolidated financial statements in the period such changes occur.

- (iii) Other

Other areas requiring the use of management estimates includes the value of long-lived assets, the allocation of those expenses of Fronteer accounted for in accordance with the continuity of interest basis of accounting, fair value estimates used in relation to acquisitions, the carrying value of the Company’s Investment in Associates, the determination of the provision for future removal and site restoration costs, the potential recognition of future income tax assets and the assumptions used in the determination of the fair value of stock-based compensation. Actual results could differ from those estimates.

Management believes that the estimates are reasonable.

*Comparative balances*

Certain comparative balances have been reclassified to maintain consistency with the September 30, 2011 presentation.

**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Condensed Interim Consolidated Financial Statements**

Nine months ended September 30, 2011

(Expressed in United States Dollars, unless otherwise noted - unaudited)

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**4. RECENT ACCOUNTING PRONOUNCEMENTS**

- (i) Accounting standards impacting 2012 calendar years

*Financial instruments disclosure*

In October 2010, the IASB issued amendments to IFRS 7 – *Financial Instruments: Disclosures*; the amendments are in respect of risk exposures arising from transferred financial assets, and are effective for annual periods beginning on or after July 1, 2011, with earlier adoption permitted. Pilot Gold does not anticipate this amendment to have a significant impact on its consolidated financial statements.

- (ii) Accounting standards impacting 2013 calendar years

*Presentation of items of other comprehensive income (“OCI”)*

Effective for years beginning on or after July 1, 2012, IAS 1 – *Presentation of Financial Statements* (“IAS 1”) has been amended to change the disclosure of items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future. The changes become effective for years beginning on or after January 1, 2013. Pilot Gold is currently evaluating the impact the amendments to IAS 1 could be expected to have on its consolidated financial statements.

*Consolidated financial statements*

IFRS 10 – *Consolidated Financial Statements* (“IFRS 10”) replaces the guidance on control and consolidation in IAS 27 – *Consolidated and Separate Financial Statements* (“IAS 27”), and SIC-12 – *Consolidation - Special Purpose Entities*, with the objective of establishing principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IAS 27 will be renamed “Separate Financial Statements”. Effective for years beginning on or after January 1, 2013, IFRS 10: (a) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements; (b) defines the principle of control, and establishes control as the basis for consolidation; (c) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and (d) sets out the accounting requirements for the preparation of consolidated financial statements. Pilot Gold is currently evaluating the impact the introduction of IFRS 10 will have on its consolidated financial statements.

*Joint arrangements*

Effective for years beginning on or after January 1, 2013, IFRS 11 – *Joint Arrangements* (“IFRS 11”) replaces IAS 31 – *Interests in Joint Ventures* (“IAS 31”). IFRS 11 reduces the types of joint arrangements to two: joint ventures and joint operations. IFRS 11 requires the use of equity accounting for interest in joint ventures, eliminating the existing policy choice of proportionate consolidate for jointly controlled entities under IAS 31. Entities that participate in joint operations and with jointly controlled assets will follow accounting similar to that in IAS 31. Pilot Gold is currently evaluating the impact the introduction of IFRS 11, will have on its consolidated financial statements.

*Disclosure of interests in other entities*

IFRS 12 – *Disclosure of Interests in Other Entities* (“IFRS 12”) sets out the disclosure requirements for entities reporting under IFRS 10 and IFRS 11, and effective for years beginning on or after January 1, 2013, replaces the disclosure requirements currently found in IAS 28 – *Investments in Associates* (“IAS 28”). The objective of IFRS 12 is to require the disclosure of information that enables users of financial statements to evaluate: (a) the nature of, and risks associated with, its interests in other entities; and (b) the effects of those interests on its financial position, financial performance and cash flows. Pilot Gold is currently evaluating the impact the introduction of IFRS 12, will have on its consolidated financial statements.

**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Condensed Interim Consolidated Financial Statements**

Nine months ended September 30, 2011

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**4. RECENT ACCOUNTING PRONOUNCEMENTS (continued)**

*Fair value measurement and disclosure requirements*

Providing a single source of guidance on how to measure fair value where its use is already required or permitted, IFRS 13 – *Fair Value Measurement* (“IFRS 13”) (a) defines fair value; (b) sets out in a single IFRS a framework for measuring fair value; and (c) requires disclosures about fair value measurements. IFRS 13 is expected to enhance disclosure requirements for information about fair value measurements and becomes effective for years beginning on or after January 1, 2013. Pilot Gold is currently evaluating the impact the application of IFRS 13 will have on its consolidated financial statements.

*Financial instruments*

As the first part of its project to replace IAS 39 – *Financial Instruments: Recognition and Measurement*, the IASB released IFRS 9 – *Financial Instruments* (“IFRS 9”) covering classification and measurement of financial assets. IFRS 9 requires that all financial assets be classified as subsequently measured at amortized cost or at fair value based on the company’s business model for managing financial assets and the contractual cash flow characteristics of the financial assets. Financial liabilities are classified as subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions. As the project to replace IAS 39 continues to evolve, further changes to IFRS 9, or changes to other standards related to financial instruments may be forthcoming. The changes as proposed become effective for years beginning on or after January 1, 2013. Pilot Gold is currently evaluating the impact IFRS 9 expected to have on its consolidated financial statements.

**5. ACCOUNTS RECEIVABLE**

	September 30, 2011	December 31, 2010
VAT Receivable	\$ -	\$ 241,649
HST Receivable	59,386	-
Mining claim refund receivable	55,845	-
Other Receivables	45,303	23,464
	<b>160,534</b>	<b>265,113</b>

During the three months to the period ended September 30, 2011 it was determined that the VAT Receivable of \$290,110 recorded by our subsidiary in Turkey was no longer recoverable. The write down has been recorded as a charge to other expenses.

**6. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

Pilot Gold has an interest in the following exploration projects of which the Brik, Buckskin North, Cold Springs, Regent and South Monitor properties were held at December 31, 2010 (the “Pilot properties”), with the remainder acquired in connection with closing of the Fronteer Arrangement (the “Exploration Business properties”).

The Exploration Business properties were acquired by Fronteer on April 23, 2010, pursuant to Fronteer’s acquisition of 100% of the outstanding limited liability company interests in Nevada Eagle Resources, LLC (“Nevada Eagle”) from Gryphon Gold Corporation. The Pilot properties were acquired from Fronteer on December 30, 2010, pursuant to agreements with Nevada Eagle and Fronteer Development USA Inc. (“Fronteer USA”).

In accordance with the application of the continuity of interest basis of accounting (note 3), costs associated with these properties have been allocated such that historic expenditure of Fronteer on each of these properties through to the Effective Date have been recognized by Pilot Gold. Expenditures incurred subsequent to March 30, 2011 reflect actual cash flows and activities of Pilot Gold on a post-transaction basis.

None of the Company’s properties have any known body of commercial ore or any established economic deposit; and all are currently in the exploration stage.

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

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**6. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)**

	<b>Total December 31, 2010</b>	Transfer to held for sale  (Note 6(c))	Additions/ Allocations	Transfer to Newmont  (Notes 1 & 6 (a))	Write down of assets held for sale  (Note 6(c))	Recovery from third party earn-in  (Note 6(c),(d) & 9)	Transfer of asset  (Notes 6(c) & 9)	<b>Total September 30, 2011</b>
	\$	\$	\$	\$				\$
<b>USA</b>								
Regent	702,234	-	2,365,435	-	-	-	-	3,067,669
New Boston	327,510	-	866,222	-	-	-	-	1,193,732
Viper	319,254	-	576,083	-	-	-	-	895,337
Gold Springs 2 (Note 9)	250,000	-	8,981	-	-	(160,000)	(98,981)	-
Brik	177,700	-	469,261	-	-	-	-	646,961
Cold Springs	175,706	-	20,777	-	-	-	-	196,483
Baxter Springs	163,411	-	74,171	-	-	-	-	237,582
Anchor	154,657	-	29,119	-	-	-	-	183,776
Easter	150,000	-	5,614	-	-	(20,000)	-	135,614
Stateline	150,000	-	53,297	-	-	-	-	203,297
Buckskin North	63,029	-	8,303	-	-	-	-	71,332
Kinsley (Note 6(b))	-	-	497,883	-	-	-	-	497,883
<b>Total USA</b>	<b>2,633,501</b>	<b>-</b>	<b>4,975,146</b>	<b>-</b>	<b>-</b>	<b>(180,000)</b>	<b>(98,981)</b>	<b>7,329,666</b>
<b>Turkey</b>								
Ispir	170,909	(170,909)	-	-	-	-	-	-
Aktarma	62,330	(62,330)	-	-	-	-	-	-
Yunt Dag	11,540	-	2,920	-	-	(10,836)	-	3,624
<b>Total Turkey</b>	<b>244,779</b>	<b>(233,239)</b>	<b>2,920</b>	<b>-</b>	<b>-</b>	<b>(10,836)</b>	<b>-</b>	<b>3,624</b>
<b>Peru</b>	<b>175,490</b>	<b>-</b>	<b>(4,063)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>171,427</b>
<b>Total</b>	<b>3,053,770</b>	<b>(233,239)</b>	<b>4,974,003</b>	<b>-</b>	<b>-</b>	<b>(190,836)</b>	<b>(98,981)</b>	<b>7,504,717</b>
<b>Assets held for sale:</b>								
South Monitor	27,724	-	-	(27,724)	-	-	-	-
Ispir	-	170,909	23,445	-	(102,436)	-	-	91,918
Aktarma	-	62,330	24,705	-	(35,548)	-	(51,487)	-
<b>Total held for sale</b>	<b>27,724</b>	<b>233,239</b>	<b>48,150</b>	<b>(27,724)</b>	<b>(137,984)</b>	<b>-</b>	<b>(51,487)</b>	<b>91,918</b>

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

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**6. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)**

	USA	Turkey	Peru	Total	Assets Held for sale
	\$	\$	\$	\$	\$
December 31, 2010	2,633,501	244,779	175,490	<b>3,053,770</b>	27,724
Expenditures and adjustments:					
Drilling	2,460,484	-	-	<b>2,460,484</b>	-
Wages, consulting and management fees	667,217	1,862	2,526	<b>671,605</b>	6,489
Acquisition costs	491,709	-	-	<b>491,709</b>	-
Assaying & geochemical	470,733	-	-	<b>470,733</b>	-
Property maintenance	280,076	-	-	<b>280,076</b>	27,626
Administrative and Other	207,646	-	-	<b>207,646</b>	8,479
Geology	183,196	-	-	<b>183,196</b>	-
Environmental	72,880	-	-	<b>72,880</b>	-
Camp & field costs	52,103	-	-	<b>52,103</b>	-
Geophysics	44,446	-	-	<b>44,446</b>	-
Advance royalty payments	20,000	-	-	<b>20,000</b>	-
Claim maintenance and advance royalty fees	13,601	1,115	-	<b>14,716</b>	5,576
Transportation	10,958	-	-	<b>10,958</b>	-
Write down of assets held for sale (Note 6 (c))	-	-	-	-	(137,984)
Sale of Aktarma property (Note 6 (c))	-	-	-	-	(51,487)
Transfer to Newmont (Note 1)	-	-	-	-	(27,724)
Cumulative translation adjustment	97	(58)	(6,589)	<b>(6,550)</b>	(20)
Transfer of asset to Gold Springs LLC (Note 9)	(98,981)	-	-	<b>(98,981)</b>	-
Recovery from option holders (Notes 6 (c), (d), (e) & 9)	(180,000)	(10,835)	-	<b>(190,835)</b>	-
Held for sale (Note 6 (c))	-	(233,239)	-	<b>(233,239)</b>	233,239
September 30, 2011	7,329,666	3,624	171,427	<b>7,504,717</b>	91,918

***Disposition of exploration properties***

- a) In connection with the closing of the Fronteer Arrangement, and as partial consideration for assets and liabilities transferred to Pilot Gold, the Company transferred the South Monitor exploration property to a subsidiary of Fronteer. The property was transferred at \$120,000 resulting in a \$92,276 'gain'; recorded in contributed surplus. The carrying amount of the Company's interest in the South Monitor exploration property has been re-classified as an asset held for sale on the comparative December 31, 2010, consolidated statement of financial position.

***Acquisition of option agreement***

- b) On September 21, 2011 the "Option Purchase Date", the Company purchased an option agreement to earn an initial 51% interest on a mining lease (the "option agreement") on the Kinsley Mountain property from Animas Resources Ltd. ("Animas") for initial consideration of \$350,000 cash and 50,000 common shares of the Company, valued at the date of transaction as \$100,140. In addition, Animas shall receive the following as consideration provided the company continues to earn-in to the mining lease:

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**6. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)**

- (i) 25,000 Common Shares on the first anniversary of the Option Purchase Date;
- (ii) 25,000 Common Shares on the second anniversary of the Option Purchase Date; and,
- (iii) 50,000 Common Shares upon the Company earning and vesting a 51% interest in the mining lease, pursuant to the Option Agreement.

To earn a 51% interest in the mining lease, the Company must incur \$1.18 million in exploration expenditures by March 30, 2013 (of which \$0.18 million must be spent by May 31, 2012); and can earn an additional undivided 14% interest in the property by electing to incur a further \$3.0 million in exploration expenditures within five years of meeting the initial earn-in. At September 30, 2011 the Company has incurred \$47,743 in eligible expenditures.

***Transfer of interest in mineral properties and deferred consideration***

- c) Pursuant to a purchase agreement the Company signed on May 16, 2011, and amended May 26, 2011, with a subsidiary of Global Resources Corporation Ltd Pty ("GRCL"), a company traded publicly on the Australian Stock Exchange, Pilot Gold's Turkish subsidiary substantively disposed of its interests in the Aktarma and Ispir exploration-stage properties, in exchange for 4,500,000 common shares in GRCL (note 8(b)). Under the related royalty agreements, each signed June 3, 2011, Pilot Gold retains a 2% Net Smelter Return royalty upon attainment of production, on all products mined in accordance with the associated licenses at Aktarma and Ispir.

In accordance with Turkish Mining Law, GRCL's Turkish subsidiary must complete and meet certain administrative and financial requirements for the legal transfer of title of the exploration licenses to GRCL's Turkish subsidiary to be recognized by the relevant Turkish Mining authorities. On September 20, 2011, all administrative and financial requirements for legal transfer of the Aktarma property were met and title to the property was formally conveyed. As certain requirements to effect the transfer of the Ispir property had not been met as at September 30, 2011, the Company has recognized the proceeds from the disposal of the Ispir property as deferred consideration on sale of properties, and has recorded the property as held for sale. The transfer of legal title of the Ispir property was completed on October 31, 2011, subsequent to the period end.

The fair market value of the shares received at June 6, 2011, the date the transaction to convey interest in the properties closed, was 171,000 Australian dollars (\$144,117). In connection with the transaction, Pilot Gold recorded a write-down of \$137,984 to adjust the carrying value of these properties to their recoverable value, net of costs to sell. The write-down through the nine-months ended September 30, 2011 includes an adjustment of \$22,253 for costs incurred on abandoned licenses not included in the agreement with GRCL. At September 30, 2011, the carrying value of the Ispir property, adjusted for the impact of foreign exchange, is included as assets held for sale at \$91,918.

***Earn-in arrangements***

- d) On June 27, 2011 the Company executed an earn-in arrangement with GRCL whereby GRCL received an option to acquire up to a 60% interest in the Yunt Dag exploration property. Under the Yunt Dag earn-in agreement, GRCL is required to meet exploration expenditure obligations over five years, and annually issue common shares to Pilot Gold. The agreement terminates should GRCL fail to incur the agreed upon annual expenditures by i) the end of the first year, or ii) the aggregate spend of the first three years by the third anniversary date of the agreement. The Company received the first 500,000 shares of GRCL upon signing of the earn-in agreement (note 8(b)), with the corresponding amount (\$10,836) recorded as a recovery against the deferred costs of the Yunt Dag property.
- e) Under an agreement signed by a subsidiary of Fronteer, and transferred to Pilot Gold pursuant to the Fronteer Arrangement, La Quinta Resources Corporation ("La Quinta") can earn a 65% interest in the Easter exploration property by incurring \$2 million in exploration expenditures by January 4, 2015 and making annual payments to Pilot Gold that total \$190,000. Upon satisfying the conditions of this earn-in, and exercising the option to form a joint venture in 2015, La Quinta is required to issue 500,000 common shares to Pilot Gold. Pilot Gold retains a net smelter royalty of 2.5% - 4%, depending on the price of gold. Prior to the closing of the Fronteer Arrangement, the Company received a scheduled \$20,000 option payment in connection with the earn-in agreement (nine months ended September 30, 2010: \$-nil). The payment was recorded as a recovery against the deferred costs of the Easter property, and included in other income consistent with continuity of interest accounting.

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**7. PLANT AND EQUIPMENT**

	Field equipment	Equipment	Computer software	Furniture and fixtures	Leasehold Improvements	Total
Cost:	\$	\$	\$	\$	\$	\$
Balance as at December 31, 2010	156,796	670,618	512,439	311,370	519,263	<b>2,170,486</b>
Additions	12,506	101,407	43,269	1,712	12,738	<b>171,632</b>
Disposals	(80,690)	(105,927)	(342,618)	(35,323)	(4,963)	<b>(569,521)</b>
Cumulative translation adjustment	(812)	(7,884)	2,726	(7,533)	(8,356)	<b>(21,859)</b>
Balance as at September 30, 2011	87,800	658,214	215,816	270,226	518,682	<b>1,750,738</b>
Depreciation:						
Balance as at December 31, 2010	81,917	342,699	442,932	135,632	236,418	<b>1,239,598</b>
Current period depreciation	6,800	76,977	65,823	23,675	82,758	<b>256,033</b>
Disposals	(45,135)	(65,652)	(319,457)	(17,665)	(1,072)	<b>(448,981)</b>
Cumulative translation adjustment	(729)	(5,362)	1,206	(4,220)	(9,043)	<b>(18,148)</b>
Balance as at September 30, 2011	42,853	348,662	190,504	137,422	309,061	<b>1,028,502</b>
Net Book Value:						
As at December 31, 2010	74,879	327,919	69,507	175,738	282,845	<b>930,888</b>
As at September 30, 2011	44,947	309,552	25,312	132,804	209,621	<b>722,236</b>

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

During the nine months ended September 30, 2011, certain equipment was disposed of for proceeds of \$5,322 (nine-months ended September 30, 2010: \$-nil). A loss of \$9,123 (nine-months ended September 30, 2010: \$nil) was recorded on the dispositions. Charges to write off certain items deemed to have reached the end of their useable life are included in operating expenses of \$106,094 during the nine-months ended September 30, 2011 (nine-months ended September 30, 2010: \$-nil).

During the nine-months ended September 30, 2011 we eliminated \$292,901 in cost and accumulated depreciation related to those assets identified as fully amortized.

**8. LONG TERM INVESTMENTS**

From time to time, the Company 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, Pilot Gold has determined that any share purchase warrants held are derivative financial instruments and any change in fair value is included in income (loss) for the period. The fair value of share purchase warrants is measured using the Black-Scholes option-pricing model that uses inputs that are primarily based on market indicators. Any common shares (equities) held are designated as available-for-sale and any change in fair value is included in other comprehensive income (loss), until such time as the common shares are sold or otherwise disposed of at which time any gains or losses will be included in income (loss) 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:

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

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**8. LONG TERM INVESTMENTS (continued)**

- 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 Pilot Gold's financial instruments with the fair value hierarchy as at September 30, 2011 and December 31, 2010:

Financial assets at fair value as at December 31, 2010				
	Level 1	Level 2	Level 3	Total
Equities	380,000	-	-	380,000
Share purchase warrants	-	39,133	-	39,133
	380,000	39,133	-	419,133

  

Financial assets at fair value as at September 30, 2011				
	Level 1	Level 2	Level 3	Total
Equities	417,074	-	-	417,074
Share purchase warrants	-	12,065	-	12,065
	417,074	12,065	-	429,139

- a) By way of a non-brokered private placement, Fronteer acquired 2,000,000 units of Rae Wallace at \$0.25 per unit. Each unit consists of one common share (the "Rae Wallace shares") and one-half of one share purchase warrant (the "Rae Wallace warrants"). The Rae Wallace shares and warrants were transferred to Pilot Gold under the terms of the Fronteer Arrangement. Each whole warrant entitles Pilot Gold to acquire one additional common share of Rae Wallace for \$0.375 per share until September 30, 2012.
- b) Pursuant to a purchase agreement and an earn-in agreement the Company signed with GRCL, Pilot Gold received a total of 5,000,000 common shares in GRCL (notes 6(c) and 6(d)).

**9. INVESTMENT IN ASSOCIATES**

Pilot holds a 40% interest in three properties; Halilağa, TV Tower and Gold Springs 2 through a 40% ownership in three companies Truva Bakir, Orta Truva and Gold Springs LLC respectively. These three entities are each related parties to the Company.

*Turkey*

Pilot Gold owns 40% of the Halilağa copper-gold porphyry property (the "Halilağa Project") through a 40% ownership stake in Truva Bakir, a Turkish company, controlled (60%) by Teck Madencilik Sanayi Ticaret A.S. ("TMST"), an indirect subsidiary of Teck Resources Limited. Pilot Gold also holds a 40% interest in Orta Truva, a Turkish company that holds mineral interests in northwest Turkey, including the TV Tower gold-silver-copper property (the "TV Tower Project"). Orta Truva is also controlled (60%) by TMST. The Company's percentage interest in the net assets and results of operations of the Halilağa Project and the TV Tower Project are thus presented in a single line on the statements of financial position as "Investment in Associates" and in the statements of loss and comprehensive loss as "Income (loss) from Associates", respectively.

Both Orta Truva and Truva Bakir are unlisted, and as such fair values of the Company's investments are not determinable through an active market.



## PILOT GOLD INC.

(An exploration stage company)

### Notes to the Condensed Interim Consolidated Financial Statements

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#### 9. INVESTMENT IN ASSOCIATES (continued)

During the nine-month period ended September 30, 2011, the Company paid \$1,037,005 and \$1,534,092 to Orta Truva and Truva Bakir respectively in response to requests from TMST to fund Pilot Gold's share of the 2011 exploration and development activities on the associated properties ("cash calls"). Balances through 2011 include Pilot Gold's share of a 12% management fee and \$7,501 recorded under continuity of interest accounting. The cash call due to TMST related to September 2011 (note 10) was paid on October 19, 2011.

##### *United States*

On June 30, 2011, High Desert Gold Corporation ("HDG") advised the Company that they had met the minimum earn-in expenditure requirement of \$1,000,000 on the Gold Springs 2 property during the preceding quarter. On July 5, 2011, the Company elected to participate at a 40%-interest in Gold Springs LLC, a newly established company into which each company's respective interests in Gold Springs will be conveyed.

Costs capitalised by the Company relating to the Gold Springs 2 property, net of option payments received of \$160,000 to July 5, 2011, were \$98,981. Option payments include a \$20,000 payment received prior to the closing of the Fronteer Arrangement. Formal transfer of the property into Gold Springs LLC is pending.

#### 10. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	September 30, 2011	December 31, 2010
Trade payables	\$ 298,144	\$ 8,152
Other payables	123,452	17,852
Accrued liabilities	327,389	48,803
Amounts due to Gold Springs LLC	506,182	-
Amounts due to Orta Truva	238,616	-
Amounts to Truva Bakir	161,659	-
	<u>1,655,442</u>	<u>74,807</u>

Trade payables and accrued liabilities are non-interest bearing and are normally settled on 30-day terms. Amounts due to Truva Bakir, Orta Truva and Gold Springs LLC relate to cash calls due in connection with the Company's pro rata share of costs incurred. Cash calls are non-interest bearing and are normally settled on 10-day terms.

#### 11. SHARE CAPITAL AND CONTRIBUTED SURPLUS

##### *Authorized*

Unlimited Common Shares with no par value.

##### *Issued*

10,000,001 pre-consolidation common shares were issued to Fronteer on December 30, 2010 for \$1,215,000 in connection with the transfer to Pilot USA of those various unpatented mining claims that comprise the Regent Project, and the Buckskin North, Brik, Cold Springs and South Monitor properties.

Pursuant to the Fronteer Arrangement, on April 4, 2011, Pilot Gold issued 192,807,807 pre-consolidation common shares in exchange for assets received from Fronteer (note 1). The issued and outstanding 202,807,808 pre-consolidation common shares were immediately consolidated on a one-for-four basis to 50,701,952 Common Shares. The balance of share capital immediately following the close of the Fronteer Arrangement was \$67,848,770. Loss per share information in these unaudited condensed interim consolidated financial statements has been presented as if the Common Shares issued in connection with the closing of the Fronteer Arrangement had been issued and outstanding from the start of all periods presented.

**PILOT GOLD INC.**

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**11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

An adjustment of \$45,528,914 was made at March 31, 2011, through accumulated deficit to reconcile i) the allocated Fronteer costs; and ii) the amounts arising on the difference between the consideration exchanged for the assets and businesses acquired and the carrying values at which they are recorded under continuity of interest, to the Common Shares issued in connection with the closing of the Fronteer Arrangement on April 6, 2011.

Pursuant to an agreement with a syndicate of underwriters (the "Underwriters"), on June 14, 2011, Pilot Gold issued 8,333,334 Common Shares on a bought-deal basis (the "Bought Deal") at \$C3.00 per Common Share, for aggregate gross proceeds of C\$25,000,002. In consideration of the services rendered by the Underwriters in connection with the Bought-Deal, the Company paid the Underwriters \$1,290,522 (C\$1,250,000), representing a fee equal to 5.0% of the gross proceeds (the "Underwriters' Fee"). In addition to the Underwriters' Fee, the Company paid share issuance costs of \$381,086 in connection with the Bought Deal.

On September 21, 2011 the Company issued 50,000 Common Shares to Animas as part consideration in the purchase of the Kinsley Mountain Option Agreement. The Common Shares were valued at \$100,140 (C\$2 each) at the time of transaction and are subject to a four month hold clause.

*Contributed surplus*

The value of i) Fronteer's funding of the carved-out exploration assets and liabilities and past carved-out operations (\$10,131,534), and ii) the assets and liabilities transferred to Pilot Gold pursuant to the Fronteer Arrangement (\$46,485,989) were recorded as contributed surplus at March 31, 2011. The value related to the Common Shares issued was transferred to share capital following the close of the Fronteer Arrangement.

*Share-based payments*

Pilot Gold has established a stock option plan (the Pilot Gold Stock Option Plan (2011)) (the "Plan"), approved by Fronteer, the sole shareholder of the Company on April 4, 2011, prior to the close of the Fronteer Arrangement. Under the terms of the Plan, the Board may, from time to time, grant to employees, officers and directors of, or consultants to the Company, non-assignable options to acquire Common Shares in such numbers and for such terms as may be determined by the Board.

The number of shares which may be issued pursuant to options previously granted and those granted under the Plan will be a maximum of 10% of the issued and outstanding shares at the time of the grant; the number of shares which may be reserved for issuance to any one individual may not exceed 5% of the issued shares on a yearly basis.

Stock options granted under the Plan are exercisable over periods of up to ten years, and the exercise price of each option shall in no circumstances be lower than the closing market price of the Company's stock on the trading day immediately before the date of grant. Options granted to Directors vest immediately, the remaining options vest in thirds at the end of each year from the date of grant. Options exercisable at September 30, 2011 totalled 1,750,000 (December 31, 2010 – nil). Any consideration paid by the optionee on the exercise of options is credited to share capital.

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

	Shares	Weighted Average Exercise Price
Balance, December 31, 2010	-	C\$ -
Options granted	3,877,500	3.47
<b>Balance, September 30, 2011</b>	<b>3,877,500</b>	<b>C\$ 3.47</b>

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

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**11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)**

At September 30, 2011, Pilot Gold had incentive stock options issued to directors, officers, employees and key consultants to the Company outstanding as follows:

Range of prices	Number of options outstanding	Weighted average remaining contractual life (in years)	Weighted average exercise price C\$	Number of options exercisable	Weighted average exercise price of options exercisable C\$
C\$2.00 to C\$2.99	90,000	9.80	2.54	-	-
C\$3.00 to C\$3.99	3,787,500	9.54	3.45	1,750,000	3.45
	<b>3,877,500</b>	<b>9.55</b>	<b>3.47</b>	<b>1,750,000</b>	<b>3.45</b>

Stock-based compensation:

For the period ended September 30, 2011, the Company recorded compensation cost on the grant of stock options to employees, directors and non-employees. For the purposes of estimating the fair value of options using the Black-Scholes option pricing model, certain assumptions are made such as expected dividend yield, volatility of the market price of the Company's shares, risk-free interest rates and expected average life of the options.

The fair value of options granted during the period ended September 30, 2011 ranged from C\$1.59 to C\$2.43 per option. The fair value of each option granted was determined using the Black-Scholes option pricing model and used the following range of assumptions:

	September 30, 2011
Risk free interest rate	1.86% to 2.93%
Expected life	5.25 to 6.29 years
Expected volatility	79% to 84%
Expected dividend yield	0.0%

For the nine-months ended September 30, 2011, the Company has capitalized a total of \$184,131 (2010 - C\$-nil) of stock-based compensation to exploration properties and deferred exploration expenditures. For the nine-months ended September 30, 2011, the Company charged a total of \$5,617,316 of stock-based compensation expense related to Pilot Gold stock options to the statement of loss, of which \$282,161 is attributed to general exploration. Total stock based compensation expense for the nine months ended September 30, 2011 also includes \$20,371 of allocated Fronteer expense recorded pursuant to continuity of interest accounting and \$44,432 in foreign exchange. Stock based compensation is allocated consistent with the allocation of wages and other compensation related to exploration undertakings on the Company's mineral properties.

In the year ended December 31, 2010, C\$164,267 of allocated Fronteer Gold stock-based compensation was allocated to the statement of loss, of which \$-nil was attributed to general exploration, and C\$27,731 was capitalized to exploration properties and deferred exploration expenditures on a continuity of interest basis.

**12. COMMITMENTS**

The Company has entered into operating leases for premises in Canada, the United States and Turkey. The lease terms are between two and four years; each location's lease is renewable at the end of the lease period at market rate. The aggregate lease expenditure related to Pilot Gold's office premises charged to the statement of loss for the nine-months ended September 30, 2011 is \$245,096, including \$1,904 allocated from Fronteer under continuity of interest accounting.

The Company also leases equipment and automobiles under cancellable operating lease agreements. The aggregate lease expenditure related to equipment and automobiles charged to the statement of loss for the nine-months ended September 30, 2011 is \$24,299.

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**12. COMMITMENTS (continued)**

Total minimum operating lease commitments and minimum rental commitments, under non-cancellable operating leases for future years are as follows:

Year	Amount
	\$
2011	124,632
2012	444,540
2013	308,530
2014	269,971
2015	276,239
2016+	905,873
	<u>2,329,785</u>

The Company is also responsible for its share of property taxes and operating costs on office premises leases.

**13. SEGMENT INFORMATION**

The Company's operations are in one industry, the exploration for gold, copper and other precious and base metals. At September 30, 2011, Pilot Gold has three geographic segments: Canada, the USA, and Turkey. The total assets attributable to the geographic locations relate primarily to the Company's exploration properties and deferred exploration expenditures and have been disclosed in Note 6.

The net loss relating to the operations in Canada, the United States and Turkey totalled \$7,254,741, \$997,317 and \$1,489,452 respectively for the nine-months ended September 30, 2011 (\$550,647, \$136,470 and \$377,678 for the nine-months ended September 30, 2010).

Plant and equipment are distributed by geographic segment per the table below.

	September 30, 2011	December 31, 2010
	\$	\$
Canada	231,354	421,098
USA	478,343	484,322
Turkey	12,539	25,468
	<u>722,236</u>	<u>930,888</u>

The Company is in the exploration stage and accordingly, has no reportable segment revenues.

**14. RELATED PARTY TRANSACTIONS**

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in these condensed interim consolidated financial statements. Details of transactions between the Company and other related parties are disclosed below.

*Compensation of key management personnel*

Key management includes members of the Board, the President and Chief Executive Officer, the Chief Operating Officer & VP Exploration, the Chief Financial Officer & Corporate Secretary, and the Country Managers in each geographic segment in which the Company undertakes exploration activities. The aggregate compensation paid, or payable to key management for employee services is shown below:

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**14. RELATED PARTY TRANSACTIONS (continued)**

	Nine-months ended
	September 30, 2011
Salaries and other short-term employee benefits	498,363
Share-based payments	4,994,033
<b>Total</b>	<b>5,492,396</b>

With the exception of certain members of the Board, prior to April 6th, 2011, Pilot Gold did not have any personnel. There was thus no remuneration or other compensation paid or provided by Pilot Gold directly to any key management personnel for their services prior to April 6th, 2011. Members of the Board receive remuneration on a quarterly basis; no remuneration had been paid to those members of the Board for their services as directors through March 31, 2011. Subsequent to March 31, 2011, the Company entered into employment relationships with its key management employees.

*Blue Gold Mining Inc.*

By virtue of having several directors and other key management personnel in common, and reflective of the substance of their relationship, the Company and Blue Gold Mining Inc (“Blue Gold”), a publicly listed exploration-stage mining company, have been determined to be related parties. Blue Gold and the Company share office premises and have entered into an administrative services agreement (the “Services Agreement”), effective September 1, 2011, whereby the Company invoices Blue Gold for certain costs incurred on their behalf. Under the Services Agreement, Blue Gold will reimburse the Company for office space and facilities shared, and for time spent by Pilot Gold personnel on projects and activities of Blue Gold. Amounts due to the Company and its subsidiaries as at September 30, 2011 are \$14,854.

**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Condensed Interim Consolidated Financial Statements**

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**15. TRANSITION TO IFRS**

Pilot Gold has prepared financial statements that comply with IFRS applicable for periods beginning on or after January 1, 2010 and the significant accounting policies meeting those requirements are described in Note 4 of the Company's condensed interim consolidated financial statements for the three months ended March 31, 2011. These accounting policies have been applied on a consistent basis to all periods presented.

The effects of the Company's transition to IFRS is summarised in this note as follows:

- (i) Transition elections
- (ii) Adjustments to the statement of cash flows
- (iii) Reconciliation of equity and comprehensive income as previously reported under Canadian GAAP to IFRS

(i) *Transitional elections*

Under IFRS 1, there are four mandatory exemptions from full retrospective application of IFRS. Of these, the only applicable election relates to estimates. An entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as at January 1, 2010 are consistent with its previous estimates under GAAP for the same date.

There are also fifteen elective exemptions. The Company has not applied any elective transition exceptions and exemptions to full retrospective application of IFRS.

(ii) *Adjustments to the statement of Cash Flows.*

The transition from Canadian GAAP to IFRS had no significant impact on cash flows generated by Pilot Gold.

(iii) *Reconciliations*

The following tables reconcile the Company's and the Exploration Properties Business ("EPB") unaudited condensed consolidated statements of financial position and statements of loss and comprehensive loss prepared in accordance with Canadian GAAP and as previously reported<sup>1</sup> to those prepared and reported in these unaudited condensed interim consolidated financial statements in accordance with IFRS.

For a summary of the effects of IFRS adoption on the Company's consolidated statement of financial position as at January 1, 2010, refer to note 18 of the Company's condensed interim consolidated financial statements for the three months ended March 31, 2011.

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<sup>1</sup> Pilot Gold determined its presentation currency to be the United States dollar to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the gold mining industry. Transitional comparative financial information below has been translated accordingly.

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

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**15. TRANSITION TO IFRS (continued)****Condensed consolidated statements of financial position (continued)**

	December 31, 2010			
	Cdn GAAP	Cdn GAAP	Adj	
	EPB <sup>1</sup>	Pilot	IAS 21	
<b>Assets</b>				
<i>Current assets</i>				
Cash and cash equivalents	86,966	-	-	86,966
Trade and other receivables	286,502	-	-	286,502
Assets held for sale	27,724	-	-	27,724
<b>Total current assets</b>	<b>401,192</b>	<b>-</b>	<b>-</b>	<b>401,192</b>
<i>Non-current assets</i>				
Exploration properties and deferred exploration expenditures	1,945,234	1,146,735	(38,199)	3,053,770
Property and equipment	962,500	-	(31,612)	930,888
Reclamation deposits	12,858	-	-	12,858
Other financial assets	419,133	-	-	419,133
Investment in associates	3,087,329	-	-	3,087,329
<b>Total non-current assets</b>	<b>6,427,054</b>	<b>1,146,735</b>	<b>(69,811)</b>	<b>7,503,978</b>
<b>Total assets</b>	<b>6,828,246</b>	<b>1,146,735</b>	<b>(69,811)</b>	<b>7,905,170</b>
<b>Liabilities and Shareholder's Equity</b>				
<i>Current liabilities</i>				
Trade and other payables	52,579	22,228	-	74,807
<b>Total current liabilities</b>	<b>52,579</b>	<b>22,228</b>	<b>-</b>	<b>74,807</b>
<i>Non-current liabilities</i>				
Deferred tax liabilities	2,656	-	(106)	2,550
<b>Total non-current liabilities</b>	<b>2,656</b>	<b>-</b>	<b>(106)</b>	<b>2,550</b>
<i>Shareholder's equity</i>				
Share capital	-	1,215,000	-	1,215,000
Contributed surplus	9,938,722	77,525	-	10,016,247
Cumulative Translation account	259,822	(2,041)	(18,690)	239,091
Accumulated other comprehensive income	(8,770)	-	-	(8,770)
Accumulated deficit	(3,416,763)	(165,977)	(51,015)	(3,633,755)
<b>Total shareholder's equity attributable to owners of the Company</b>	<b>6,773,011</b>	<b>1,124,507</b>	<b>(69,705)</b>	<b>7,827,813</b>
<b>Total shareholder's equity and liabilities</b>	<b>6,828,246</b>	<b>1,146,735</b>	<b>(69,811)</b>	<b>7,905,170</b>

<sup>1</sup> Pilot Gold determined its presentation currency to be the United States dollar to better reflect the Company's business activities and to improve investors' ability to compare the Company's financial results with other publicly traded businesses in the gold mining industry

**PILOT GOLD INC.**  
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**15. TRANSITION TO IFRS (continued)**  
**Condensed consolidated statements of financial position (continued)**

	September 30, 2010			IFRS
	Cdn GAAP EPB <sup>1</sup>	Cdn GAAP Pilot	Adj IAS 21	
<b>Assets</b>				
<i>Current assets</i>				
Cash and cash equivalents	56,420	-	-	56,420
Trade and other receivables	284,602	-	-	284,602
<b>Total current assets</b>	<b>341,022</b>	<b>-</b>	<b>-</b>	<b>341,022</b>
<i>Non-current assets</i>				
Exploration properties and deferred exploration expenditures	1,701,038	788,190	218,473	2,707,701
Property and equipment	992,045	-	(18,672)	973,373
Other financial assets	478,975	-	-	478,975
Investment in associates	2,170,086	-	447	2,170,533
<b>Total non-current assets</b>	<b>5,342,144</b>	<b>788,190</b>	<b>200,248</b>	<b>6,330,582</b>
<b>Total assets</b>	<b>5,683,166</b>	<b>788,190</b>	<b>200,248</b>	<b>6,671,604</b>
<b>Liabilities and Shareholder's Equity</b>				
<i>Current liabilities</i>				
Trade and other payables	19,132	-	-	19,132
<b>Total current liabilities</b>	<b>19,132</b>	<b>-</b>	<b>-</b>	<b>19,132</b>
<i>Non-current liabilities</i>				
Deferred tax liabilities	(1,463)	-	3,707	2,244
<b>Total non-current liabilities</b>	<b>(1,463)</b>	<b>-</b>	<b>3,707</b>	<b>2,244</b>
<i>Shareholder's equity</i>				
Share capital				
Contributed surplus	8,589,033	997,396	-	9,586,429
Cumulative Translation account	126,934	(141,258)	258,241	243,917
Accumulated other comprehensive income	(15,734)	-	26,964	11,230
Accumulated deficit	(3,034,736)	(67,948)	(88,664)	(3,191,348)
<b>Total shareholder's equity attributable to owner of the Company</b>	<b>5,665,497</b>	<b>788,190</b>	<b>196,541</b>	<b>6,650,228</b>
<b>Total shareholder's equity and liabilities</b>	<b>5,683,166</b>	<b>788,190</b>	<b>200,248</b>	<b>6,671,604</b>



**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

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**15. TRANSITION TO IFRS (continued)****Condensed consolidated statements of loss and comprehensive income (loss)**

The significant impacts of IFRS on the Company's consolidated statements of financial position at September 30, 2010 and December 31, 2010 include those described above and those described below in the reconciliation of the Company's condensed statements of loss and comprehensive loss:

	Three months ended September 30, 2010				Nine months ended September 30, 2010			
	Cdn GAAP	Cdn GAAP	Adj	IFRS	Cdn GAAP	Cdn GAAP	Adj	IFRS
	EPB <sup>1</sup>	Pilot	IAS 21		EPB <sup>1</sup>	Pilot	IAS 21	
<b>Continuing operations</b>								
Operating expenses								
Professional fees	7,243	4,064	-	11,307	77,344	7,090	-	84,434
Wages and benefits	45,613	14,124	-	59,737	197,227	18,403	-	215,630
Stock based compensation	2,504	24,094	-	26,598	151,067	26,909	-	177,976
Office and general	35,843	7,412	-	43,255	152,875	10,364	-	163,239
Investor relations, promotion and advertising	3,872	3,050	-	6,922	19,133	5,182	-	24,315
Amortization	103,521	-	3,691	107,212	275,536	-	2,012	277,548
Loss from operations	198,596	52,744	3,691	255,031	873,182	67,948	2,012	943,142
Other income (expenses)								
Change in fair value of financial instruments	(38,036)	-	-	(38,036)	(38,036)	-	-	(38,036)
Foreign exchange gains and (losses)	11,024	-	(10,927)	97	(3,500)	-	(9,404)	(12,904)
Loss from associates	(8,243)	-	-	(8,243)	(72,222)	-	-	(72,222)
	(35,255)	-	(10,927)	(46,182)	(113,758)	-	(9,404)	(123,162)
Loss before tax	(233,851)	(52,744)	(14,618)	(301,213)	(986,940)	(67,948)	(11,416)	(1,066,304)
Income tax recovery	6,707	-	373	7,080	1,136	-	373	1,509
<b>Loss for the year</b>	<b>(227,144)</b>	<b>(52,744)</b>	<b>(14,245)</b>	<b>(294,133)</b>	<b>(985,804)</b>	<b>(67,948)</b>	<b>(11,043)</b>	<b>(1,064,795)</b>
<b>Other comprehensive income</b>								
Exchange differences on translating foreign operations	(161,533)	(112,257)	328,452	54,662	7,555	(141,258)	191,240	57,537
Net fair value loss on financial assets	(15,734)	-	26,964	11,230	(15,734)	-	26,964	11,230
Other comprehensive income for the period, net of tax	(177,267)	(112,257)	355,416	65,892	(8,179)	(141,258)	218,204	68,767
<b>Total loss and comprehensive income for the period</b>	<b>(404,411)</b>	<b>(165,001)</b>	<b>341,171</b>	<b>(228,241)</b>	<b>(993,983)</b>	<b>(209,206)</b>	<b>207,161</b>	<b>(996,028)</b>

**PILOT GOLD INC.****(An exploration stage company)****Notes to the Condensed Interim Consolidated Financial Statements**

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**15. TRANSITION TO IFRS (continued)****Condensed consolidated statements of loss and comprehensive income (loss) (continued)**

	December 31, 2010			IFRS
	Cdn GAAP	Cdn GAAP	Adj	
	EPB <sup>1</sup>	Pilot	IAS 21	
<b>Continuing operations</b>				
Operating expenses				
Professional fees	91,899	35,446	-	127,345
Wages and benefits	305,002	48,443	-	353,445
Stock based compensation	159,467	51,229	-	210,696
Office and general	181,685	20,178	-	201,863
Investor relations, promotion and advertising	32,601	10,681	-	43,282
Amortization	387,337	-	(3,714)	383,623
Loss from operations	1,157,991	165,977	(3,714)	1,320,254
Other income (expenses)				
Change in fair value of financial instruments	(72,097)	-	-	(72,097)
Foreign exchange gains and (losses)	(46,745)	-	22,890	(23,855)
Loss from associates	(92,199)	-	-	(92,199)
	(211,041)	-	22,890	(188,151)
Loss before tax	(1,369,032)	(165,977)	26,604	(1,508,405)
Income tax recovery	1,203	-	-	1,203
<b>Loss for the year</b>	<b>(1,367,829)</b>	<b>(165,977)</b>	<b>26,604</b>	<b>(1,507,202)</b>
<b>Other comprehensive income (loss)</b>				
Exchange differences on translating foreign operations	140,443	(2,041)	(85,691)	52,711
Net fair value loss on financial assets	(8,517)	-	(253)	(8,770)
Other comprehensive income (loss) for the period, net of tax	131,926	(2,041)	(85,944)	43,941
<b>Total loss and comprehensive loss for the period</b>	<b>(1,235,903)</b>	<b>(168,018)</b>	<b>(59,340)</b>	<b>(1,463,261)</b>

Explanatory notes:

*a) IAS 21 Adjustment*

Under IFRS, functional currency is determined on an entity-by-entity basis as the primary economic environment in which each entity operates. The hierarchy of factors explicitly described by IAS 21 *The Effects of Changes in Foreign Exchange Rates* in this determination has led to a change in the functional currency of the United States and Turkey-based subsidiaries to United States dollars due to a number of factors. The result is a number of foreign currency translation differences not present under Canadian GAAP. The functional currency of Pilot Gold Inc., Pilot Holdings Inc. and Pilot Investments Inc., remain unchanged as the Canadian dollar.