Pilotgold

Consolidated Financial Statements

(Expressed in US Dollars)
Year ended December 31, 2011

Independent Auditor's Report

To the Shareholders of Pilot Gold Inc.

We have audited the accompanying consolidated financial statements of Pilot Gold Inc. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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 International Financial Reporting Standards, 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 audits 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 Company as at December 31, 2011, December 31, 2010 and January 1, 2010 and its financial performance and its cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers LLP

Chartered Accountants
Vancouver, British Columbia
March 28, 2012

PILOT GOLD INC.
Consolidated statements of loss and comprehensive loss
(Expressed in US Dollars)

	Year ended December 31,	
	2011	2010
	$	$
Operating expenses		
Stock based compensation (Note 13)	5,900,670	210,696
Property investigation (Note 14)	1,707,421	-
Office and general	1,241,232	201,863
Wages and benefits	1,201,229	353,445
Professional fees	466,283	127,345
Investor relations, promotion and advertising	335,822	43,282
Depreciation	324,448	383,623
Listing and filing fees	303,645	-
Loss on disposal and write down of plant and equipment (Note 8)	89,490	-
Write down of assets held for sale (Note 7(c))	137,984	-
Write down of VAT receivable (Note 6)	290,110	-
Loss from operations	11,998,334	1,320,254
Other income (expenses)		
Change in fair value of financial instruments (Note 9)	(38,575)	(72,097)
Other expenses	(47,392)	-
Income (loss) from associates (Note 10)	4,762	(92,199)
Finance income (charges)	231,643	-
Foreign exchange gains (losses)	56,951	(23,855)
	207,389	(188,151)
Loss before tax	(11,790,945)	(1,508,405)
Income tax (expense) recovery (Note 12)	(49,985)	1,203
Loss for the period	(11,840,930)	(1,507,202)
Other comprehensive income (loss)		
Exchange differences on translating foreign operations	(1,523,756)	52,711
Net fair value loss on financial assets (Note 9)	(83,701)	(8,770)
Exchange on unrealized loss on long-term investments	27,907	-
Other comprehensive income (loss) for the period, net of tax	(1,579,550)	43,941
Total loss and comprehensive loss for the period	(13,420,480)	(1,463,261)
Loss per share		
Basic and diluted	$ (0.21)	$ (0.03)
Common shares		
Basic and diluted (Notes 1 and 13)	55,281,973	50,701,927

PILOT GOLD INC.
Consolidated statements of financial position
(Expressed in US Dollars)

	As at December 31, 2011	As at December 31, 2010	As at January 1, 2010
	$	$	$
Assets			
Current assets			
Cash	7,391,497	86,966	218,526
Short term investments	11,028,857	-	-
Receivables (Note 6)	309,295	265,113	239,039
Prepayments	165,863	21,389	8,641
Assets held for sale (Note 7(a))	-	27,724	-
Total current assets	18,895,512	401,192	466,206
Non-current assets			
Exploration properties and deferred exploration expenditures (Note 7)	9,129,967	3,053,770	370,571
Plant and equipment (Note 8)	714,024	930,888	726,686
Reclamation deposits	250,283	12,858	-
Other financial assets (Note 9)	456,870	419,133	-
Investment in associates (Note 10)	8,046,606	3,087,329	875,821
Total non-current assets	18,597,750	7,503,978	1,973,078
Total assets	37,493,262	7,905,170	2,439,284
Liabilities and Shareholders' Equity			
Current liabilities			
Accounts payable and other liabilities (Note 11)	999,502	74,807	35,015
Decommissioning liability	50,484	-	-
Total current liabilities	1,049,986	74,807	35,015
Non-current liabilities			
Deferred tax liabilities (Note 12)	52,536	2,550	3,753
Other liabilities	21,137	-	-
Total non-current liabilities	73,673	2,550	3,753
Shareholders' equity			
Share capital (Note 13)	92,123,392	1,215,000	-
Contributed surplus (Note 13)	6,599,039	10,016,247	4,340,689
Accumulated other comprehensive income (loss)	(1,349,229)	230,321	186,380
Accumulated deficit	(61,003,599)	(3,633,755)	(2,126,553)
Total shareholders' equity	36,369,603	7,827,813	2,400,516
Total liabilities and shareholders' equity	37,493,262	7,905,170	2,439,284

Commitments (Note 17)
Segment information (Notes 7 and 18)
Related party transactions (Note 19)
Subsequent events (Note 20)

These financial statements are approved by the board and authorised for issue on March 28, 2012:

"*Donald McInnes*", Director "*Sean Tetzlaff*", Director

PILOT GOLD INC.
Consolidated statements of changes in equity
(Expressed in US Dollars)

	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
Shares issued on incorporation of Pilot Gold Inc. (Note 1 & 13)	2,500,000	1,215,000	-	-	-	1,215,000
Funding and expenses paid by Fronteer and its subsidiaries (Note 1)	-	-	1,044,282	-	-	1,044,282
Net assets contributed by Fronteer and its subsidiaries (Note 1)	-	-	4,631,276	-	-	4,631,276
Unrealized loss on long-term investments	-	-	-	(8,770)		(8,770)
Cumulative translation adjustment	-	-	-	52,711	-	52,711
Net loss for the period	-	-	-	-	(1,507,202)	(1,507,202)
Balance as at December 31, 2010	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 & 13)	-	-	10,131,534	-	-	10,131,534
Net assets contributed by Fronteer and its subsidiaries (Note 1 & 13)	-	-	46,485,989	-	-	46,485,989
Adjustment for shares issued in connection with the Fronteer Arrangement (Note 13)	-	-	(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	-	-	-	(83,701)	-	(83,701)
Exchange on unrealized loss on long-term investments	-	-	-	27,907	-	27,907
Shares issued as a result of financing	8,333,334	25,810,450	-	-	-	25,810,450
Share issue costs	-	(1,635,968)	-	-	-	(1,635,968)
Shares issued as consideration for option on mineral property (Note 7(b))	50,000	100,140	-	-	-	100,140
Cumulative translation adjustment	-	-	-	(1,523,756)	-	(1,523,756)
Stock based compensation	-	-	6,599,039	-	-	6,599,039
Net loss for the period	-	-	-	-	(11,840,930)	(11,840,930)
Balance as at December 31, 2011	59,085,286	92,123,392	6,599,039	(1,349,229)	(61,003,599)	36,369,603

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

	Year ended December 31,	
	2011	2010
	$	$
Cash flows from operating activities		
Loss for the period	(11,840,930)	(1,507,202)
Adjusted for:		
Stock based compensation	5,900,670	210,696
Stock based compensation included in Property Investigation	431,187	-
Depreciation	324,448	383,623
Write-down of assets held for sale	137,984	-
Write-down of VAT receivable (Note 6)	290,110	-
Change in fair value of financial instruments	38,575	72,097
Non-cash other income	23,323	-
Loss on disposal of property and equipment	95,329	-
Income from associates	(4,762)	92,199
Foreign exchange	(16,112)	23,855
Change in provision	21,137	
Deferred income taxes	49,985	1,203
Interest income on short term investments	(105,774)	-
Movements in working capital:		
Accounts receivable and prepayments	(71,103)	(15,589)
Accounts payable and other liabilities	250,264	15,978
Net cash used by operating activities	(4,475,669)	(723,140)
Cash flows from financing activities		
Funding received from Fronteer for operations	1,176,472	6,612,944
Cash received from financing	25,810,450	-
Share issue costs	(1,635,968)	-
Cash received pursuant to the Fronteer Arrangement	9,819,540	-
Net cash generated by financing activities	35,170,494	6,612,944
Cash flows from investing activities		
Change in working capital attributable to deferred exploration expenditures	228,573	581
Purchase of short term investments	(11,274,980)	(500,000)
Purchase of property and equipment	(199,997)	(572,924)
Proceeds from sale of capital equipment	5,839	-
Investment in Associates	(4,693,358)	(2,187,730)
Acquistion of mineral properties	(350,000)	(1,675,000)
Interest in exploration properties and deferred exploration expenditures	(5,938,638)	(1,078,352)
Recoveries on mineral properties	140,000	-
Purchase of reclamation deposits	(250,000)	(12,858)
Net cash used by investing activities	(22,332,561)	(6,026,283)
Effect of foreign exchange rates	(1,057,733)	4,919
Net increase (decrease) in cash and cash equivalents	7,304,531	(131,560)
Cash at beginning of period	86,966	218,526
Cash at end of the period	7,391,497	86,966

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 Halilağa 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 owns 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".

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.

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

These consolidated financial statements, including comparative figures, have been prepared using accounting policies in compliance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). The disclosures concerning the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS are included in Note 21.

The consolidated financial statements were authorized for issue by the Board of Directors (the "Board") on March 28, 2012.

The basis of preparation of these 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.

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.

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

In accordance with the continuity of interest basis of accounting, these audited 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 consolidated financial statements for the year ended December 31, 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 December 31, 2011. Accordingly, these consolidated financial statements should be read in conjunction with the consolidated annual financial statements to December 31, 2010 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 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.

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 audited 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies used in the preparation of these consolidated financial statements are set out below.

(a) Continuity of interest basis of accounting
There is currently no guidance in IFRS on the accounting treatment for combinations among entities under common control. IAS 8 – *Accounting policies, changes in accounting estimates and errors* ("IAS 8") requires management, if there is no specifically applicable standard of interpretation, to develop a reliable policy that is relevant to the decision making needs of users.

The Company has determined to apply the concept of continuity of interest basis of accounting for transactions under common control as detailed under United States generally accepted accounting principles ("US GAAP"). US GAAP requires an acquirer in a combination between entities or businesses under common control to recognize the assets acquired and liabilities assumed in the transaction at their carrying amounts in the accounts of the transferring entity at the date of the transfer.

(b) Basis of measurement
The consolidated financial statements have been prepared under the historical cost convention, except for financial assets classified as available-for-sale and fair value through profit and loss which are measured at fair value. These consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

(c) Basis of consolidation
The financial statements of Pilot Gold consolidate the accounts of Pilot Gold Inc. and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Subsidiaries are those entities that Pilot Gold controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether Pilot Gold controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by Pilot Gold and are de-consolidated from the date that control ceases.

The principal subsidiaries of Pilot Gold and their geographic locations at December 31, 2011 were as follows:

Name of subsidiary	Principal activity	Location	Proportion of ownership interest and voting power held
Pilot Gold USA Inc.	Mineral exploration	United States	100%
Agola Madencilik Limited Sirketi ("Agola") (1)	Mineral exploration	Turkey	100%
Pilot Holdings Inc.	Holding company	Cayman Islands	100%
Pilot Investments Inc.	Holding company	Cayman Islands	100%

(1) Ownership of Agola is subject to nominal share or unit holdings required to meet the statutory number of shareholders or unit holders under Turkish law. Such nominal shares and units are held by a director of Pilot Gold, for the benefit of the Company.

(d) Investments in associates

The Company conducts a portion of its business through equity interests in associates. An associate is an entity over which Pilot Gold has significant influence, but not control. The financial results of Pilot Gold's investments in its associates are included in Pilot Gold's results according to the equity method. Under the equity method, the Company's investment in an associate is initially recognized at cost and subsequently increased or decreased to recognize the Company's share of earnings and losses of the associate and for impairment losses after the initial recognition date. The Company's share of an associate's losses that are in excess of its investment in the associate are recognized only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. The Company's share of earnings and losses of associates is recognized in net income (loss) during the period; its share of other comprehensive income (loss) of associates is included in other comprehensive income (loss). Distributions received from an associate are accounted for as a reduction in the carrying amount of the Company's investment.

Intercompany transactions between Pilot Gold and its associates are recognized in the Company's consolidated financial statements only to the extent of unrelated investors' interests in the associates. Intercompany balances between the Company and its associates are not eliminated. Unrealized gains on transactions between Pilot Gold and an associate are eliminated to the extent of Pilot Gold's interest in the associate. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of loss.

At the end of each reporting period, Pilot Gold assesses whether there is any objective evidence that its investment interests in associates are impaired. If impaired, the carrying value of Pilot Gold's share of the underlying assets of associates is written down to its estimated recoverable amount (being the higher of fair value less cost to sell and value in use) and charged to the statement of loss. When an impairment loss reverses in a subsequent period, the carrying amount of the investment in associate is increased to the revised estimate of recoverable amount to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had an impairment loss not been previously recognized. A reversal of an impairment loss is recognized in net earnings (loss) in the period the reversal occurs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Foreign currencies
Items included in the financial statements of each entity in the Company are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). These consolidated financial statements are presented in United States dollars, changed effective January 1, 2010. The translation has been applied retrospectively (note 3).

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date, giving rise to foreign exchange gains and losses in the statement of loss.

The functional currency of Pilot Gold Inc. is Canadian dollars; for the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations are expressed in United States dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in this case, the exchange rates at the dates of the transactions are used. Equity transactions are translated using the exchange rate at the date of the transaction. Exchange differences arising from assets and liabilities held in foreign currencies, are recognised in other comprehensive income (loss) as cumulative translation adjustments.

When an entity disposes of its entire interest in a foreign operation, or loses control, joint control, or significant influence over a foreign operation, the foreign currency gains or losses accumulated in other comprehensive income (loss) related to the foreign operation are recognized in profit or loss.

(f) Cash
Cash comprises cash on hand, deposits in banks that are readily convertible into a known amount of cash.

(g) Exploration properties and deferred exploration expenditures
Acquisition and exploration expenditures on properties are deferred until such time as the properties are put into commercial production, sold or become impaired. Costs incurred before Pilot Gold has obtained legal rights to explore an area are recognized in the statement of loss. General exploration expenditures are charged to operations in the period in which they are incurred. Pilot Gold 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.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

Although we have taken steps to verify title to mineral properties in which we have an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee our title. Property title may be subject to unregistered prior agreements or transfers and may be affected by undetected defects.

(h) Property, plant and equipment
Property plant and equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Cost consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to Pilot Gold and the cost can be measured reliably. Repairs and maintenance costs are charged to the statement of loss during the period in which they are incurred.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The major categories of property, plant and equipment noted below are depreciated over their estimated useful life using the following annual rates and methods:

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

Depreciation expense of assets used in exploration is capitalized to deferred exploration expenditures. Management reviews the estimated useful lives, residual values and depreciation methods of the Company's plant and equipment at the end of each financial year and when events and circumstances indicate that such a review should be made. Changes to estimated useful lives, residual values or depreciation methods resulting from such review are accounted for prospectively.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for and depreciated as separate items of plant and equipment.

Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized, if the recognition criteria are satisfied.

(i) Assets and liabilities held for sale
A non-current asset or disposal group of assets and liabilities ("disposal group") is classified as held for sale when it meets the following criteria:

(i) The non-current asset or disposal group is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets or disposal groups; and

(ii) The sale of the non-current asset or disposal group is highly probable. For the sale to be highly probable:
   a. The appropriate level of management must be committed to a plan to sell the asset (or disposal group);
   b. An active program to locate a buyer and complete the plan must have been initiated;
   c. The non-current asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value;
   d. The sale should be expected to qualify for recognition as a completed sale within one year from the date of classification as held for sale (with certain exceptions); and
   e. Actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

(j) Impairment of long-lived assets
Plant and equipment, exploration properties and deferred exploration expenditures are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment is assessed on an asset-by-asset basis. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Provisions and constructive obligations

Provisions, including environmental restoration, restructuring costs and legal claims are recognised when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Constructive obligations are obligations that derive from the Company's actions where:

(i) An established pattern of past practice, published policies or a sufficiently specific current statement, the Company has indicated to other parties that it will accept certain responsibilities; and
(ii) As a result, Pilot Gold has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Where the time value of money is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. As at December 31, 2011, the Company has recorded $71,621 for provisions and constructive obligations.

(l) Significant Accounting Judgments and Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to use estimates and assumptions that affect the reported amounts of assets, liabilities and expenses.

i) Review of asset carrying values and impairment assessment

In accordance with the Company's accounting policy each asset is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is measured at fair value less costs to sell.

The most significant assets assessed include the value of our investment interests in associates, and the carrying value of our exploration properties and deferred exploration expenditures. There were no assumptions underlying our estimate of recoverability of these assets that relate to matters defined as highly uncertain at the time these estimates were made. Recoverability of the carrying amount of the exploration properties, and of our interest in associates is dependent on successful development and commercial exploitation, or alternatively, sale of the respective assets. Changes in any of the assumptions used to determine impairment testing could materially affect the result of our analyses.

At December 31, 2011, we reviewed the carrying value of our asset and determined that there were no indicators of impairment.

ii) Decommissioning and restoration provisions

Decommissioning and restoration costs are a normal consequence of exploration. The Company's accounting policy requires the recognition of such provisions when the obligation occurs. The initial provisions are periodically reviewed during the life of the project to reflect known developments, e.g. updated cost estimates and revisions to the estimated lives of the projects. The ultimate magnitude of these costs is uncertain, and cost estimates can vary in response to many factors including changes to the relevant legal requirements, the emergence of new restoration techniques or experience on other sites. The expected timing of expenditure can also change. As a result there could be significant adjustments to the provision for decommissioning, which would affect future financial results.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

iii) Determination of the fair value of share-based compensation

The fair value of stock options granted is computed to determine the relevant charge to the income statement, and liability if applicable. In order to compute this fair value the Company uses a Black-Scholes pricing model that inherently requires management to make various estimates and assumptions in relation to the expected life of the award, expected volatility, risk-free rate and forfeiture rates.

Changes in any of these inputs could cause a significant change in the share-based compensation expense charged in a period.

The assumptions with the greatest potential impact on the calculations are the volatility and the expected life. We base our expectation of volatility on the volatility of similar publicly-listed companies, as the expected life of our stock options exceeds our trading history.

iv) Deferred tax assets and liabilities

The determination of the Company's tax expense for the period and deferred tax liabilities involves significant estimation and judgment by management. In determining these amounts, management interprets tax legislation in a variety of jurisdictions and makes estimates of the expected timing of the reversal of deferred tax assets and liabilities. The Company is subject to assessments by various taxation authorities, which may interpret legislation differently. These differences may affect the final amount or the timing of the payment of taxes.

The Company provides for such differences, where known, based on management's best estimate of the probable outcome of these matters.

v) Functional currency

The determination of a subsidiary's functional currency often requires significant judgement where the primary economic environment in which they operate may not be clear. This can have a significant impact on the consolidated results of the Company based on the foreign currency translation method required.

Management believes that the estimates are reasonable.

(m) Income taxes

Income tax comprises current and deferred tax. Income tax is recognized in the statement of loss except to the extent that it relates to items recognized directly in equity, in which case the income tax is also recognized directly in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

In general, deferred tax is recognized in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the balance sheet date and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except, in the case of subsidiaries, where the timing of the reversal of the temporary difference is controlled by Pilot Gold and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are presented as non-current.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Earnings or loss per share
Earnings per share is calculated by dividing the net earnings (loss) available to common shareholders by the weighted average number of common shares outstanding during the reporting period. The calculation of diluted earnings per share assumes that outstanding options and warrants are exercised and the proceeds are used to repurchase Common Shares at the average market price of the shares for the period. The effect is to increase the number of shares used to calculate diluted earnings per share and is only recognized when the effect is dilutive.

(o) Financial instruments
Financial assets and liabilities are recognized when Pilot Gold becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and Pilot Gold has transferred substantially all risks and rewards of ownership.

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, Pilot Gold classifies its financial instruments in the following categories depending on the purpose for which the instruments were acquired:

(i) Financial assets and liabilities at fair value through profit or loss: A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short-term. Derivatives are also included in this category unless they are designated as hedges. The instruments held by the Company classified in this category are share purchase warrants.

Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of loss. Gains and losses arising from changes in fair value are presented in the statement of loss within other gains and losses in the period in which they arise. Financial assets and liabilities at fair value through profit or loss are classified as current except for the portion expected to be realized or paid beyond twelve months of the balance sheet date, which is classified as non-current.

(ii) Available-for-sale investments: Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. Pilot Gold has classified certain of its long-term investments in this category.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income (loss). Available-for-sale investments are classified as non-current, unless the investment matures within twelve months, or management expects to dispose of them within twelve months.

Interest on available-for-sale investments, calculated using the effective interest method, is recognized in the statement of loss as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of loss as part of other gains and losses when Pilot Gold's right to receive payment is established. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income (loss) to the statement of loss and included in other gains and losses.

(iv) Loans and receivables: Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Pilot Gold's loans and receivables are comprised of 'Receivables' and 'Cash', and are included in current assets due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received less, when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Held to maturity: Held to maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Pilot Gold's management has the positive intention and ability to hold to maturity. They are measured at amortized cost less any allowance for impairment. Amortization of premiums or discounts and losses due to impairment are included in current period income (loss). Pilot Gold's short term investments are in this category.

(vi) Financial liabilities at amortized cost: Financial liabilities at amortized cost include trade payables and accrued liabilities. Trade payables and accrued liabilities are initially recognized at the amount required to be paid less, when material, a discount to reduce the payables to fair value. Subsequently, trade payables are measured at amortized cost using the effective interest method.

Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise, they are presented as non-current liabilities.

(p) Impairment of financial assets
At each reporting date, management of Pilot Gold assesses whether there is objective evidence that a financial asset is impaired. If such evidence exists, Pilot Gold recognizes an impairment loss, as follows:

(i) Financial assets carried at amortized cost: The loss is the difference between the amortized cost of the loan or receivable and the present value of the estimated future cash flows, discounted using the instrument's original effective interest rate. The carrying amount of the asset is reduced by this amount either directly or indirectly through the use of an allowance account.

(ii) Available-for-sale financial assets: A significant or prolonged decline in the fair value of the security below its cost is evidence that the assets are impaired. The impairment loss is the difference between the original cost of the asset and its fair value at the measurement date, less any impairment losses previously recognized in the statement of income. This amount represents the cumulative loss in accumulated other comprehensive income that is reclassified to net income.

(q) Share-based payments
An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. The fair value of option grants is measured at the date of grant using the Black-Scholes option-pricing model and the compensation amount, equal to the option's fair value, is recognized over the period that the employees earn the options. The vesting periods of the stock options granted range from vesting immediately to vesting over a three-year period. Each tranche is recognised on a straight-line basis over the vesting period. Pilot Gold recognizes an expense or addition to exploration properties and deferred exploration expenditures for options granted under the employee stock option plan, arising from stock options granted to employees using the fair value method with a corresponding increase in equity. The amount recognized as an expense or added to exploration properties and deferred exploration expenditures, is adjusted to reflect the number of options expected to vest.

5. 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.

5. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

(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.

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.

(Expressed in United States Dollars, unless otherwise noted)

5. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

(iii) Accounting standards impacting 2015 calendar years

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, 2015. Pilot Gold is currently evaluating the impact IFRS 9 expected to have on its consolidated financial statements.

At this time and where applicable, Pilot Gold does not anticipate it will be early adopting any of the above standards.

6. ACCOUNTS RECEIVABLE

	December 31, 2011	December 31, 2010	January 1, 2010
VAT Receivable	$ -	$ 241,649	$ 215,997
HST Receivable	100,555	-	-
Other Receivables	208,740	23,464	23,042
	309,295	265,113	239,039

During the year ended December 31, 2011 it was determined that the VAT Receivable of $290,110 recorded by our subsidiary in Turkey was no longer recoverable.

7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

Pilot Gold has an interest in the exploration projects listed in the following table 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; all are currently in the exploration stage.

(Expressed in United States Dollars, unless otherwise noted)

7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

	Total January 1, 2010	Additions/ Allocations	Transferred to invesment in associate (Note 10)	**Total December 31, 2010**	Transfer to held for sale (Note 7(c))	Additions/ Allocations	Transfer to Newmont (Notes 1 & 7 (a))	Write down of assets held for sale (Note 7(c))	Recovery from third party earn-in (Note 7(d),(e) & 10)	Transfer of asset (Notes 7(c) & 10	**Total December 31, 2011**
	$	$	$	**$**	$	$	$				**$**
USA											
Regent	**-**	702,234	-	**702,234**	-	3,009,831	-	-	-	-	**3,712,065**
New Boston	**-**	327,510	-	**327,510**	-	900,929	-	-	-	-	**1,228,439**
Viper	**113,927**	205,327	-	**319,254**	-	669,168	-	-	-	-	**988,422**
Gold Springs 2 (Note 10)	-	250,000	-	**250,000**	-	8,981	-	-	(160,000)	(98,981)	-
Brik	-	177,700	-	**177,700**	-	538,286	-	-	-	-	**715,986**
Cold Springs	-	175,706	-	**175,706**	-	24,210	-	-	-	-	**199,916**
Baxter Springs	-	163,411	-	**163,411**	-	107,884	-	-	-	-	**271,295**
Anchor	-	154,657	-	**154,657**	-	29,341	-	-	-	-	**183,998**
Easter	-	150,000	-	**150,000**	-	5,711	-	-	(20,000)	-	**135,711**
Stateline	**-**	150,000	-	**150,000**	-	70,853	-	-	-	-	**220,853**
Buckskin North	**-**	63,029	-	**63,029**	-	23,937	-	-	-	-	**86,966**
Kinsley (Note 7(b))	-	-	-	-	-	1,133,509	-	-	-	-	**1,133,509**
Other	-	-	-	-	-	74,064	-	-	-	-	**74,064**
Total USA	**113,927**	2,519,574	-	**2,633,501**	-	6,596,704	-	-	(180,000)	(98,981)	**8,951,224**
Turkey											
Ispir	**163,452**	7,457	-	**170,909**	(170,909)	-	-	-	-	-	-
Aktarma	**55,064**	7,266	-	**62,330**	(62,330)	-	-	-	-	-	-
TV Tower	**34,981**	63,568	(98,549)	-	-	-	-	-	-	-	-
Yunt Dag	**3,147**	8,393	-	**11,540**	-	2,920	-	-	(10,836)	-	**3,624**
Total Turkey	**256,644**	86,684	(98,549)	**244,779**	(233,239)	2,920	-	-	(10,836)	-	**3,624**
Peru	-	175,490	-	**175,490**	-	(371)	-	-	-	-	**175,119**
Total	**370,571**	2,781,748	(98,549)	**3,053,770**	(233,239)	6,599,253	-	-	(190,836)	(98,981)	**9,129,967**
Assets held for sale:											
South Monitor	-	27,724	-	**27,724**	-	-	(27,724)	-	-	-	-
Ispir	-	-	-	-	170,909	23,445	-	(102,437)	-	(91,917)	-
Aktarma	-	-	-	-	62,330	24,705	-	(35,547)	-	(51,488)	-
Total held for sale	-	27,724	-	**27,724**	233,239	48,150	(27,724)	(137,984)	-	(143,405)	-

(Expressed in United States Dollars, unless otherwise noted)

7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

	USA $	Turkey $	Peru $	**Total** **$**	Assets Held for sale $
January 1, 2010	113,927	256,644	-	**370,571**	-
2010 expenditures and adjustments:					
Acquisition costs	1,675,157	-	156,300	**1,831,457**	27,724
Assaying & geochemical	173,186	1,964	19,190	**194,340**	-
Drilling	-	-	-	**-**	-
Engineering	-	9,795	-	**9,795**	-
Option payments	-	-	-	**-**	-
Camp & field costs	12,806	286	-	**13,092**	-
Geophysics	83,445	17,682	-	**101,127**	-
Transportation	24,298	48,578	-	**72,876**	-
Wages, consulting and management fees	391,851	1,297	-	**393,148**	-
Claim maintenance and advance royalty fees	128,489	6,514	-	**135,003**	-
Environmental	13,172	-	-	**13,172**	-
Other	17,080	-	-	**17,080**	-
Costs transferred to investment in associate	-	(98,549)	-	**(98,549)**	-
Cumulative translation adjustment	90	568	-	**658**	-
December 31, 2010	2,633,501	244,779	175,490	**3,053,770**	27,724
Expenditures and adjustments:					
Drilling	3,173,479	-	-	**3,173,479**	-
Wages, consulting and management fees	943,808	1,863	2,580	**948,251**	6,489
Assaying & geochemical	630,305	-	-	**630,305**	-
Acquisition costs	516,709	-	-	**516,709**	-
Property maintenance	403,954	-	-	**403,954**	27,626
Administrative and other	264,506	-	-	**264,506**	8,479
Geology	254,764	-	-	**254,764**	-
Geophysics	121,359	-	-	**121,359**	-
Environmental	83,242	-	-	**83,242**	-
Camp & field costs	76,173	-	-	**76,173**	-
Claim maintenance and advance royalty fees	117,351	1,115	-	**118,466**	5,576
Transportation	10,958	-	-	**10,958**	-
Write down of assets held for sale (Note 7 (c))	-	-	-	**-**	(137,984)
Sale of Aktarma and Ispir properties (Note 7 (c))	-	-	-	-	(143,405)
Transfer to Newmont (Note 1)	-	-	-	**-**	(27,724)
Cumulative translation adjustment	96	(58)	(2,951)	**(2,913)**	(20)
Transfer of asset to Gold Springs LLC (Note 10)	(98,981)	-	-	**(98,981)**	-
Recovery from option holders (Notes 7(d), (e) & 10)	(180,000)	(10,836)	-	**(190,836)**	-
Held for sale (Note 7(c))	-	(233,239)	-	**(233,239)**	233,239
December 31, 2011	8,951,224	3,624	175,119	**9,129,967**	-

7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

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 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:

   (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). An additional undivided 14% interest in the property can be earned by electing to incur a further $3.0 million in exploration expenditures within five years of meeting the initial earn-in. At December 31, 2011 the Company has incurred $683,369 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 Securities 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 9(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.

   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). The legal transfers of title of Aktarma and Ispir were completed on September 20, 2011 and October 31, 2011 respectively. 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 year ended December 31, 2011 includes an adjustment of $22,253 for costs incurred on abandoned licenses not included in the agreement with GRCL.

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 9(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

(Expressed in United States Dollars, unless otherwise noted)

7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

Gold totalling $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 (year ended December 31, 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.

8. PLANT AND EQUIPMENT

	Field equipment	Equipment	Computer software	Furniture and fixtures	Leasehold improvements	**Total**
Cost:	$	$	$	$	$	**$**
Balance as at January 1, 2010	139,614	484,116	371,209	286,185	264,189	**1,545,313**
Additions	10,545	175,163	126,959	15,610	244,648	**572,925**
Cumulative translation adjustment	6,637	11,339	14,271	9,574	10,427	**52,248**
Balance as at December 31, 2010	156,796	670,618	512,439	311,369	519,264	**2,170,486**
Additions	20,936	110,632	46,922	4,337	17,170	**199,997**
Disposals	(80,084)	(102,718)	(340,174)	(35,190)	(4,963)	**(563,129)**
Cumulative translation adjustment	(120)	(3,369)	2,212	(3,359)	(3,743)	**(8,379)**
Balance as at December 31, 2011	97,528	675,163	221,399	277,157	527,728	**1,798,975**
Depreciation:						
Balance as at January 1, 2010	62,551	226,370	319,511	90,846	119,349	**818,627**
Current period depreciation	15,863	108,859	108,198	41,047	109,656	**383,623**
Cumulative translation adjustment	3,503	7,470	15,223	3,739	7,413	**37,348**
Balance as at December 31, 2010	81,917	342,699	442,932	135,632	236,418	**1,239,598**
Current period depreciation	15,444	100,372	76,248	33,434	98,950	**324,448**
Disposals	(50,046)	(71,829)	(329,112)	(19,651)	(1,126)	**(471,764)**
Cumulative translation adjustment	(244)	(2,192)	1,393	(2,099)	(4,189)	**(7,331)**
Balance as at December 31, 2011	47,071	369,050	191,461	147,316	330,053	**1,084,951**
Net Book Value:						
As at January 1, 2010	77,063	257,746	51,698	195,339	144,840	**726,686**
As at December 31, 2010	74,879	327,919	69,507	175,737	282,846	**930,888**
As at December 31, 2011	50,457	306,113	29,938	129,841	197,675	**714,024**

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

During the year ended December 31, 2011, certain equipment was disposed of for proceeds of $5,839 (year ended December 31, 2010: $-nil). A loss of $6,757 (year ended December 31, 2010: $nil) was recorded on the dispositions.

(Expressed in United States Dollars, unless otherwise noted)

8. PLANT AND EQUIPMENT (continued)

Charges to write off certain items deemed to have reached the end of their useable life are included in operating expenses of $82,733 during the year ended December 31, 2011 (year ended December 31, 2010: $-nil).

During the year ended December 31, 2011 we eliminated $299,194 in cost and accumulated depreciation related to those assets identified as fully amortized.

9. 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:

- 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 December 31, 2011 and December 31, 2010 (at January 1, 2010 – nil):

	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 December 31, 2011			
	Level 1	Level 2	Level 3	Total
Equities	451,249	-	-	451,249
Share purchase warrants	-	5,621	-	5,621
	451,249	5,621	-	456,870

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 July 23, 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 7(c) and 7(d)).

(Expressed in United States Dollars, unless otherwise noted)

10. INVESTMENT IN ASSOCIATES

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

	$
At January 1, 2010	875,821
Share of loss	(92,199)
Funding	2,228,235
Exchange differences	75,472
At December 31, 2010	**3,087,329**
Recognition	98,981
Share of income	4,762
Funding	4,693,358
Accrued cash calls	331,504
Exchange differences	(169,328)
At December 31, 2011	**8,046,606**

The Company's share of the results of its associates, all of which are unlisted, and its share in their aggregate assets and liabilities, are as follows:

Name	Country of Incorporation	Assets	Liabilities	Profit/Loss	Interest held
		$	$	$	
Truva Bakir Maden Isletmeleri	Turkey	2,373,419	(29,903)	(87,332)	40%
Orta Truva Madencilik	Turkey	767,712	(23,899)	(4,867)	40%
December 31, 2010		3,141,131	(53,802)	(92,199)	
Truva Bakir Maden Isletmeleri	Turkey	4,729,376	(44,625)	6,846	40%
Orta Truva Madencilik	Turkey	2,680,903	(18,845)	8,136	40%
Gold Springs LLC	Canada	716,153	(16,356)	(10,220)	40%
December 31, 2011		8,126,432	(79,826)	4,762	

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 ("Teck"). 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. 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.

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 December 2011 (note 11) was paid on February 2, 2011.

(Expressed in United States Dollars, unless otherwise noted)

10. INVESTMENT IN ASSOCIATES (continued)

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, the conveyance of each company's respective interests into the newly established company that will hold Gold Springs 2, is outstanding.

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.

11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	December 31, 2011	December 31, 2010	January 1 2010
Trade payables	$ 336,240	$ 8,152	$ -
Other payables	85,832	17,852	20,663
Accrued liabilities	245,926	48,803	14,352
Amounts due to Gold Springs LLC	104,754	-	-
Amounts due to Orta Truva	155,715	-	-
Amounts to Truva Bakir	71,035	-	-
	999,502	74,807	35,015

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.

12. 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 2011 of 26.5% (2010 – 28.5%)

	December 31, 2011	December 31, 2010
Loss before taxes	$ (11,790,945)	$ (1,508,405)
Statutory tax rate	26.50%	28.50%
Expected income tax recovery	(3,124,601)	(429,895)
Permanent differences	1,550,210	42,357
Benefit not recognized and other	1,624,376	323,100
Income tax expense	49,985	(1,203)

(Expressed in United States Dollars, unless otherwise noted)

12. INCOME TAXES (continued)

b) Deferred income taxes arise from temporary differences in the recognition of income and expenses for financial and tax purposes. The significant components of the Company's deferred tax assets and liabilities are as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
Mineral properties	$ (52,536)	$ (2,550)	$ (3,753)
Total deferred tax liability	**(52,536)**	(2,550)	(3,753)

All changes in deferred tax liabilities are recognised in the statement of loss. All deferred tax liabilities are expected to be for longer than twelve months.

c) The following are deferred tax benefits which have not been recognized as at December 31, 2011:

	December 31, 2011	December 31, 2010	January 1, 2010
Deferred tax assets (liabilities):			
Operating losses carried forward	$ 2,726,789	$ 1,321,804	$ 382,826
Equipment	56,024	227,241	157,549
Mineral properties	(1,531,653)	(728,107)	(29,819)
Investments and other	355,059	12,718	-
Net unrecognized tax benefit	1,606,219	833,656	510,556

d) The Company has non capital losses which may be applied to reduce future taxable income. These losses expire as follows:

Year	Canada	US	Total
2031	$2,321,000	$5,399,000	$7,720,000

There are no income taxes owed by Pilot Gold at December 31, 2011.

13. 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 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.

(Expressed in United States Dollars, unless otherwise noted)

13. 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 $345,446 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 December 31, 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	4,027,500		3.35
Balance, December 31, 2011	4,027,500	**C$**	**3.35**

(Expressed in United States Dollars, unless otherwise noted)

13. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

At December 31, 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	Weighted average exercise price	Number of options exercisable	Weighted average exercise price of options exercisable
		(in years)	C$		C$
C$1.00 to C$1.99	150,000	9.89	1.20	-	-
C$2.00 to C$2.99	90,000	9.55	2.54	-	-
C$3.00 to C$3.99	3,787,500	9.29	3.45	1,750,000	3.45
	4,027,500	**9.32**	**3.35**	**1,750,000**	**3.45**

Stock-based compensation:

For the year ended December 31, 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 year ended December 31, 2011 ranged from C$0.80 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:

	December 31, 2011
Risk free interest rate	1.836% to 2.93%
Expected life	5.25 to 6.29 years
Expected volatility	79% to 84%
Expected dividend yield	0.0%

For the year ended December 31, 2011, the Company has capitalized a total of $287,553 (2010 - C$-nil) of stock-based compensation to exploration properties and deferred exploration expenditures. For the year ended December 31, 2011, the Company charged a total of $6,331,857 of stock-based compensation expense related to Pilot Gold stock options to the statement of loss, of which $431,187 is attributed to general exploration. Total stock based compensation expense for the year ended December 31, 2011 also includes $20,371 of allocated Fronteer expense recorded pursuant to continuity interest accounting. 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.

(Expressed in United States Dollars, unless otherwise noted)

14. PROPERTY INVESTIGATION EXPENSE

	December 31, 2011	December 31, 2010
Salaries and benefits	$ 472,136	$ -
Stock-based compensation	431,187	-
Professional Fees	206,362	-
Geochemistry	131,937	-
Transportation	120,233	-
Consultants	101,965	-
Meals and accommodation	80,466	-
Leasing	56,345	-
Other	28,070	-
Due Diligence	44,968	-
Permitting	33,752	-
	1,707,421	**-**

15. CAPITAL DISCLOSURES

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

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

16. FINANCIAL RISK MANAGEMENT

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

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

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

16. FINANCIAL RISK MANAGEMENT (continued)

Interest Rate Risk
We are subject to interest rate risk with respect to our investments in cash and short term investments. Our current policy is to invest cash at floating rates of interest and cash reserves are to be maintained in cash and cash equivalents in order to maintain liquidity, while achieving a satisfactory return for shareholders. Fluctuations in interest rates when cash and cash equivalents mature impact interest income earned

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

Foreign Exchange Risk

The results of the Company's operations are exposed to currency fluctuations. To date, the Company has raised funds entirely in Canadian dollars. The majority of the Company's mineral property expenditures, including the cash calls from the Company's 60% partner at Orta Truva and Truva Bakir, are incurred in United States dollars. The fluctuation of the CAD in relation to the United States dollar will consequently have an impact upon the financial results of the Company.

Further, although only a portion of the Company's expenditures, primarily general and administrative costs are incurred in Canadian dollars, the Company records its assets located in Vancouver in Canadian dollars. As the operating results and financial position of the Company are reported in United States dollars in Pilot Gold's consolidated financial statements, there may also be an impact to the value of the Company's assets, liabilities and shareholders' equity as a result of the fluctuation of the CAD in relation to the United States dollar. The Company has not entered into any derivative contracts to manage foreign exchange risk at this time.

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

17. 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 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 year ended December 31, 2011 is $348,582, including $1,904 allocated from Fronteer under continuity of interest accounting.

Total future minimum lease payments, under non-cancellable operating leases as at December 31, 2011 are as follows:

Year	Amount
	$
2012	433,407
2013	314,021
2014	275,067
2015	281,470
2016	284,015
2017+	639,034
	2,227,013

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

(Expressed in United States Dollars, unless otherwise noted)

18. SEGMENT INFORMATION

The Company's operations are in one segment, the exploration for gold, copper and other precious and base metals. At December 31, 2011, Pilot Gold has three geographic locations: 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 7.

The net loss relating to the operations in Canada, the United States and Turkey totalled $8,790,644, $1,433,272 and $1,617,014 respectively for the year ended December 31, 2011 ($799,310, $208,169 and $499,723 for the year ended December 31, 2010).

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

	December 31, 2011	December 31, 2010	January 1, 2010
	$	$	$
Canada	**234,662**	421,098	448,039
USA	**466,492**	484,322	245,086
Turkey	**12,870**	25,468	33,561
	714,024	930,888	726,686

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

19. RELATED PARTY TRANSACTIONS

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:

	Year ended December 31, 2011
Salaries and other short-term employee benefits	891,135
Share-based payments	5,366,679
Total	**6,257,814**

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.

20. SUBSEQUENT EVENTS

Nevada Sunrise Gold Corporation

On February 15, 2012, the Company agreed to participate in a private placement by Nevada Sunrise Gold Corporation ("NSGC"), the company that holds the underlying lease on the Kinsley Mountain Project. Through the offering, which closed on March 23, 2012, the Company agreed to purchase 6,250,000 units of NSGC at a price of $0.12 per unit. Each unit issued to Pilot Gold will consist of one common share of NSGC and one half of one common share purchase warrant. Each whole warrant will entitle the holder to purchase an additional common share at an exercise price of $0.20 for a period of 24 months from the date of issuance. As a result the Company holds a 9.9% interest, on a partially diluted basis, in NSGC.

21. 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.

The effects of the Company's transition to IFRS are 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 exemptions and 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[1] to those prepared and reported in these consolidated financial statements in accordance with IFRS.

[1] 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.

(Expressed in United States Dollars, unless otherwise noted)

21. TRANSITION TO IFRS (continued)
Consolidated statements of financial position (continued)

	January 1, 2010		
	Cdn GAAP EPB[1]	**Adj** IAS 21	**IFRS**
Assets			
Current assets			
Cash and cash equivalents	218,526	-	218,526
Trade and other receivables	247,680	-	247,680
Total current assets	466,206	-	466,206
Non-current assets			
Exploration properties and deferred exploration expenditures	366,001	4,570	370,571
Property and equipment	740,678	(13,992)	726,686
Investment in associates	875,821	-	875,821
Total non-current assets	1,982,500	(9,422)	1,973,078
Total assets	2,448,706	(9,422)	2,439,284
Liabilities and Shareholder's Equity			
Current liabilities			
Trade and other payables	35,015	-	35,015
Total current liabilities	35,015	-	35,015
Non-current liabilities			
Deferred tax liabilities	2,556	1,197	3,753
Total non-current liabilities	2,556	1,197	3,753
Shareholder's equity			
Share capital	-	-	-
Contributed surplus	4,340,689	-	4,340,689
Cumulative Translation account	119,379	67,001	186,380
Accumulated deficit	(2,048,933)	(77,620)	(2,126,553)
Total shareholder's equity attributable to owners of the Company	2,411,135	(10,619)	2,400,516
Total shareholder's equity and liabilities	2,448,706	(9,422)	2,439,284

As at January 1, 2010, there are no balances presented related to Pilot Gold Inc. ("Cdn GAAP – Pilot"), as the assets and activities accounted for in accordance with the continuity of interests' basis of accounting were not acquired by Fronteer, our former parent until April 23, 2010

[1] 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.

(Expressed in United States Dollars, unless otherwise noted)

21. TRANSITION TO IFRS (continued)

Consolidated statements of financial position (continued)

	December 31, 2010			
	Cdn GAAP	**Cdn GAAP**	**Adj**	**IFRS**
	EPB[1]	Pilot	IAS 21	
Assets				
Current assets				
Cash and cash equivalents	86,966	-	-	86,966
Trade and other receivables	286,502	-	-	286,502
Assets held for sale	27,724	-	-	27,724
Total current assets	401,192	-	-	401,192
Non-current assets				
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
Total non-current assets	6,427,054	1,146,735	(69,811)	7,503,978
Total assets	6,828,246	1,146,735	(69,811)	7,905,170
Liabilities and Shareholder's Equity				
Current liabilities				
Trade and other payables	52,579	22,228	-	74,807
Total current liabilities	52,579	22,228	-	74,807
Non-current liabilities				
Deferred tax liabilities	2,656	-	(106)	2,550
Total non-current liabilities	2,656	-	(106)	2,550
Shareholder's equity				
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)
Total shareholder's equity attributable to owners of the Company	6,773,011	1,124,507	(69,705)	7,827,813
Total shareholder's equity and liabilities	6,828,246	1,146,735	(69,811)	7,905,170

[1] 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.

(Expressed in United States Dollars, unless otherwise noted)

21. TRANSITION TO IFRS (continued)

Consolidated statements of loss and comprehensive income (loss)

The significant impacts of IFRS on the Company's consolidated statements of financial position at 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:

	December 31, 2010			
	Cdn GAAP	Cdn GAAP	Adj	IFRS
	EPB[1]	Pilot	IAS 21	
Continuing operations				
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
Depreciation	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
Loss for the year	(1,367,829)	(165,977)	26,604	(1,507,202)
Other comprehensive income (loss)				
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
Total loss and comprehensive loss for the period	(1,235,903)	(168,018)	(59,340)	(1,463,261)

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.