

Pilotgold

An exploration stage company

Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars - unaudited)
Nine months ended September 30, 2014

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

	As at September 30, 2014	As at December 31, 2013
	<u>\$</u>	<u>\$</u>
Assets		
<i>Current assets</i>		
Cash	14,207,548	9,806,384
Short term investments	9,164,096	9,199,306
Receivables and prepayments (Note 5)	1,173,793	1,030,952
Exploration properties held for sale	-	142,583
Total current assets	<u>24,545,437</u>	<u>20,179,225</u>
<i>Non-current assets</i>		
Other financial assets (Note 6)	775,540	760,142
Deposits	1,253,780	1,362,460
Plant and equipment	457,558	554,105
Exploration properties and deferred exploration expenditures (Note 7)	28,762,663	14,883,769
Earn-in option (Note 8)	19,492,967	18,676,395
Investment in associates (Note 9)	15,418,083	14,958,216
Total non-current assets	<u>66,160,591</u>	<u>51,195,087</u>
Total assets	<u>90,706,028</u>	<u>71,374,312</u>
Liabilities and Shareholders' Equity		
<i>Current liabilities</i>		
Accounts payable and accrued liabilities (Note 10)	2,041,317	1,708,714
Total current liabilities	<u>2,041,317</u>	<u>1,708,714</u>
<i>Non-current liabilities</i>		
Other liabilities	93,124	68,126
Total non-current liabilities	<u>93,124</u>	<u>68,126</u>
<i>Shareholders' equity</i>		
Share capital (Note 11)	155,077,051	133,117,092
Contributed surplus (Note 11)	18,741,573	16,319,202
Accumulated other comprehensive loss	(6,082,605)	(4,096,784)
Accumulated deficit	(82,902,283)	(78,165,115)
Total shareholders' equity	<u>84,833,736</u>	<u>67,174,395</u>
Non controlling interest (Note 12)	<u>3,737,851</u>	<u>2,423,077</u>
Total liabilities and shareholders' equity	<u>90,706,028</u>	<u>71,374,312</u>

The notes on pages 5 to 16 are an integral part of these condensed interim consolidated financial statements.

These financial statements are approved by the board and authorised for issue on November 12, 2014:

"Donald McInnes", Director

"Sean Tetzlaff", Director

PILOT GOLD INC.**Condensed interim consolidated statements of loss and comprehensive loss
(Expressed in United States Dollars - unaudited)**

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
	\$	\$	\$	\$
Operating expenses				
Wages and benefits	312,327	329,520	1,188,061	1,169,927
Stock based compensation (Note 11)	258,489	343,454	928,501	1,907,347
Office and general	255,453	269,797	906,938	863,379
Investor relations, promotion and advertising	100,280	69,781	402,514	300,320
Property investigation	99,815	76,976	296,624	131,298
Professional fees	37,483	89,624	248,972	528,113
Write down of deferred exploration expenditures (Note 7c)	-	-	143,038	1,373,760
Depreciation	43,061	47,598	129,740	143,941
Listing and filing fees	421	765	46,167	53,633
Loss on disposal of plant and equipment	-	-	5,576	3,341
	<u>1,107,329</u>	<u>1,227,515</u>	<u>4,296,131</u>	<u>6,475,059</u>
Loss from operations				
Other income (expenses)				
Change in fair value and impairment of financial instruments (Note 6)	(376,539)	(43,026)	(661,052)	(1,550,796)
Other net (expense) income	28,177	1,465	(24,650)	34,547
Loss from associates (Note 9)	(14,538)	(42,320)	(49,187)	(85,367)
Foreign exchange gains (losses)	35,639	20,161	35,313	203,361
Finance income	113,083	75,860	258,539	303,112
	<u>(214,178)</u>	<u>12,140</u>	<u>(441,037)</u>	<u>(1,095,143)</u>
Loss for the period and attributable to the shareholders	<u>1,321,507</u>	<u>1,215,375</u>	<u>4,737,168</u>	<u>7,570,202</u>
Other comprehensive income (loss)				
Items that may be reclassified subsequently to net income				
Exchange differences on translations	(2,829,415)	649,759	(2,601,553)	(1,830,375)
Net fair value gain (loss) on financial assets (Note 6)	51,141	(150,661)	593,077	(150,661)
Amounts reclassified into net loss on impairment of financial assets	-	-	22,655	131,620
Other comprehensive income (loss) for the period, net of tax	<u>(2,778,274)</u>	<u>499,098</u>	<u>(1,985,821)</u>	<u>(1,849,416)</u>
Total loss and comprehensive loss for the period and attributable to the shareholders	<u>4,099,781</u>	<u>716,277</u>	<u>6,722,989</u>	<u>9,419,618</u>
Loss per share				
Basic and diluted loss per share	<u>\$ 0.01</u>	<u>\$ 0.01</u>	<u>\$ 0.05</u>	<u>\$ 0.09</u>
Weighted average number of Common Shares				
Basic and diluted	104,484,520	87,198,920	99,105,382	86,503,026

The notes on pages 5 to 16 are an integral part of these condensed interim consolidated financial statements.

PILOT GOLD INC.

Condensed interim consolidated statements of changes in equity
(Expressed in United States Dollars - unaudited)

	Number of Common Shares #	Share capital \$	Warrants \$	Contributed surplus \$	Accumulated other comprehensive income (loss) \$	Accumulated deficit \$	Total shareholders' equity \$	Non-controlling interest \$	Total equity \$
Balance as at January 1, 2013	85,210,333	126,912,393	5,103,994	8,787,402	(723,065)	(69,022,801)	71,057,923	-	71,057,923
Issuances as consideration for mineral property rights	4,730,000	6,209,491	-	-	-	-	6,209,491	-	6,209,491
Share issue costs	-	(4,792)	-	-	-	-	(4,792)	-	(4,792)
Stock based compensation	-	-	-	2,033,763	-	-	2,033,763	-	2,033,763
Unrealized loss on long-term investments	-	-	-	-	(150,661)	-	(150,661)	-	(150,661)
Net impairment of long-term investments recognised in the statement of loss	-	-	-	-	131,620	-	131,620	-	131,620
Cumulative translation adjustment	-	-	-	-	(1,830,375)	-	(1,830,375)	-	(1,830,375)
Net loss for the period	-	-	-	-	-	(7,570,202)	(7,570,202)	-	(7,570,202)
Balance as at September 30, 2013	89,940,333	133,117,092	5,103,994	10,821,165	(2,572,481)	(76,593,003)	69,876,767	-	69,876,767
Balance as at December 31, 2013	89,940,333	133,117,092	5,103,994	11,215,208	(4,096,784)	(78,165,115)	67,174,395	2,423,077	69,597,472
Issuances as consideration for mineral property rights (Note 7b)	4,218,164	5,050,408	1,248,371	42,192	-	-	6,340,971	-	6,340,971
Issuances on private placement	13,072,000	18,130,145	-	-	-	-	18,130,145	-	18,130,145
Share issue costs on private placement	-	(1,228,420)	-	-	-	-	(1,228,420)	-	(1,228,420)
Option exercise	5,000	7,826	-	(2,946)	-	-	4,880	-	4,880
Stock based compensation (Note 11)	-	-	-	1,134,755	-	-	1,134,755	-	1,134,755
Net impairment of long-term investments recognised in the statement of loss	-	-	-	-	22,655	-	22,655	-	22,655
Unrealized gain on long-term investments	-	-	-	-	593,077	-	593,077	-	593,077
Contributions by non-controlling interest	-	-	-	-	-	-	-	1,314,774	1,314,774
Cumulative translation adjustment	-	-	-	-	(2,601,553)	-	(2,601,553)	-	(2,601,553)
Net loss for the period	-	-	-	-	-	(4,737,168)	(4,737,168)	-	(4,737,168)
Balance as at September 30, 2014	107,235,497	155,077,051	6,352,365	12,389,209	(6,082,605)	(82,902,283)	84,833,737	3,737,851	88,571,588

The notes on pages 5 to 16 are an integral part of these condensed interim consolidated financial statements.

PILOT GOLD INC.**Condensed interim consolidated statements of cash flows**
(Expressed in United States Dollars - unaudited)

	Nine months ended September 30,	
	2014	2013
	\$	\$
Cash flows from operating activities		
Loss for the period	(4,737,168)	(7,570,202)
Adjusted for:		
Stock based compensation	998,207	1,940,132
Write-down of deferred exploration expenditures (Note 7c)	143,038	1,373,760
Gains and losses relating to financial instruments	661,052	1,550,796
Other non-cash expenditures on the statement of loss	303,029	(406,147)
Foreign exchange not related to cash	132,718	648,948
Interest income on short term investments	(31,790)	(73,715)
Movements in working capital:		
Accounts receivable and prepayments	24,865	75,206
Accounts payable and other liabilities	(48,707)	(280,262)
Cash deposit to Oxygen Capital Corp.	-	(197,262)
Net cash outflow due to operating activities	<u>(2,554,756)</u>	<u>(2,938,746)</u>
Cash flows from financing activities		
Cash received from financing	18,130,145	-
Share issue costs	(1,228,420)	(4,792)
Contributions from non-controlling interest	1,314,774	-
Cash inflow from financing activities	<u>18,216,499</u>	<u>(4,792)</u>
Cash flows from investing activities		
Change in working capital attributable to deferred exploration expenditures	(592,691)	6,692
Cash received from Orta Truva for Eligible Expenditures	2,825,150	9,610,200
Eligible Expenditures on TV Tower	(3,401,737)	(6,323,910)
Funding to Associates	(1,268,507)	(4,588,293)
Purchase of short term investments	(9,273,972)	(6,883,100)
Maturity of short term investments	8,881,531	6,914,703
Purchase and proceeds of sale of property and equipment	(55,679)	(151,948)
Transaction costs net of cash received for Cadillac Acquisition (Note 7b)	(509,577)	-
Expenditures towards option to earn-in	(1,780,431)	(7,163,350)
Interest in exploration properties and deferred exploration expenditures	(5,488,072)	(2,502,197)
Proceeds from sale of mineral properties	-	3,000,000
Purchase of reclamation deposits	(45,700)	(710,000)
Net cash outflow due to investing activities	<u>(10,709,685)</u>	<u>(8,791,203)</u>
Effect of foreign exchange rates	<u>(550,894)</u>	<u>(1,438,710)</u>
Net increase (decrease) in cash and cash equivalents	4,401,164	(13,173,451)
Cash at beginning of period	9,806,384	30,224,184
Cash at end of the period	<u>14,207,548</u>	<u>17,050,733</u>

See Note 15 for supplemental cash flow information

PILOT GOLD INC.

(An exploration stage company)

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2014

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

1. GENERAL INFORMATION

Pilot Gold Inc. (“Pilot Gold”, or the “Company”), is incorporated and domiciled in Canada, and its registered office is at Suite 1900 – 1055 West Hastings Street, Vancouver, British Columbia, V6E 2E9.

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 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.

2. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2014 (the “Interim Financial Statements”) have been prepared in accordance with IAS 34, ‘Interim financial reporting’. The Interim Financial Statements should be read in conjunction with the annual financial statements for the period ended December 31, 2013, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

3. ACCOUNTING POLICIES

These Interim Financial Statements have been prepared using accounting policies consistent with those used in the Company’s 2013 annual consolidated financial statements except as follows: Management fees of \$624,697 in the comparative period statement of loss have been reclassified as a recovery against operating expenses in order to clarify their nature as a recovery, consistent with the current period. There is no impact to the loss for that period.

Changes in accounting policies

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2012: IAS 36, ‘Impairment of assets’, and IFRIC 21, ‘Accounting for levies imposed by governments’. No changes were necessary as a result of the adoption of either of the standards. Refer to the Company’s condensed interim consolidated financial statements for the three months ended March 31, 2014 for further details.

Basis of consolidation

On August 29, 2014 the Company acquired the Goldstrike project pursuant to the acquisition of Cadillac Mining Corporation (“Cadillac”). The transaction did not meet the definition of a business combination, and was therefore accounted for as an asset acquisition (Note 7b).

As a consequence of the acquisition of Cadillac the principle subsidiaries of Pilot Gold and their geographic locations as at September 30, 2014 now also include:

Name of subsidiary	Principal activity	Location	Ownership interest and voting power held
Cadillac Mining Corporation	Holding company	Canada	100%
Cadillac West Explorations Inc.	Mineral exploration	Canada	100%
Cadillac South Explorations Inc.	Mineral exploration	United States	100%

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4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these Interim Financial Statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended December 31, 2013.

5. RECEIVABLES

	September 30, 2014	December 31, 2013
Sales taxes receivable	\$ 94,447	\$ 29,993
Receivable from Orta Truva for expenditures on TV Tower	802,610	750,914
Other receivables	105,569	90,039
Prepayments	171,167	160,006
	<u>\$ 1,173,793</u>	<u>\$ 1,030,952</u>

The majority of Eligible Expenditures (Note 8) are incurred by the Company's wholly-owned Turkish subsidiary in accordance with a technical services agreement relating to exploration at TV Tower. The balance due from Orta Truva Madencilik Şanayi ve Ticaret A.Ş. ("Orta Truva"), the Turkish company that holds TV Tower, reflects Eligible Expenditures incurred by the Company at TV Tower and includes recoverable VAT that is not an Eligible Expenditure. The Company subsequently funds Orta Truva (Notes 8 & 9) such that it can settle the amount due. At September 30, 2014, the Company has a receivable balance due from Truva Bakır of \$32,971 (included in Other Receivables).

6. OTHER FINANCIAL ASSETS

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.

As at September 30, 2014, the Company's total other financial assets valued at \$775,540, are all available for sale equity investments categorised as Level 1 under the fair value hierarchy. The total amount in accumulated other comprehensive income relating to available for sale financial instruments is \$596,098.

PILOT GOLD INC.

(An exploration stage company)

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2014

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

7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

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. Expenditures at Halilağa are recorded in the Company's investment in Truva Bakır, an equity-accounted associate (Note 9). Expenditures on TV Tower are bifurcated as 60% to the Earn-in Option (Note 8) and 40% to the Company's investment in Orta Truva (Note 9) in order to maintain the Company's proportionate interest in Orta Truva until such time as the earn-in to an additional 20% has been completed.

	Total January 1, 2013	Additions/ Allocations	Write-down or disposal of asset	Transfer to held for sale	Recovery from third party earn-in	Total September 30, 2013	Total December 31, 2013	Cadillac Acquisition	Additions/ Allocations	Write-down of asset	Recovery from third party earn-in	Total September 30, 2014
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
USA												
Kinsley Mountain (Note 7a)	4,816,365	2,031,510	-	-	-	6,847,875	11,078,278	-	5,255,632	-	-	16,333,910
Goldstrike (Note 7b)	-	-	-	-	-	-	-	8,336,985	78,542	-	-	8,415,527
Viper	1,013,835	19,233	-	-	-	1,033,068	1,019,608	-	17,241	-	-	1,036,849
Brik	743,598	18,195	-	-	-	761,793	761,922	-	22,778	-	-	784,700
Griffon	415,971	298,336	-	-	-	714,307	716,071	-	35,230	-	-	751,301
Stateline	252,098	26,575	-	-	-	278,673	278,719	-	28,526	-	-	307,245
Anchor	196,583	2,991	-	-	(33,024)	166,550	166,550	-	-	-	(79,570)	86,980
Easter	143,433	48,354	-	-	-	191,787	192,842	-	11,764	-	-	204,606
Gold Bug	126,130	269,273	-	-	-	395,403	401,314	-	52,762	-	-	454,076
Antelope	106,231	11,351	-	-	-	117,582	149,547	-	10,423	-	-	159,970
Drum Mountain	-	104,344	-	-	-	104,344	118,918	-	108,581	-	-	227,499
New Boston	1,281,116	924	(1,282,040)	-	-	-	-	-	-	-	-	-
Total USA	9,095,360	2,831,086	(1,282,040)	-	(33,024)	10,611,382	14,883,769	8,336,985	5,621,479	-	(79,570)	28,762,663
Turkey												
Arasanli	140,651	1,963	-	(142,614)	-	-	-	-	-	-	-	-
Total Turkey	140,651	1,963	-	(142,614)	-	-	-	-	-	-	-	-
Total	9,236,011	2,833,049	(1,282,040)	(142,614)	(33,024)	10,611,382	14,883,769	8,336,985	5,621,479	-	(79,570)	28,762,663
Assets held for sale												
Regent	2,982,050	-	(2,982,050)	-	-	-	-	-	-	-	-	-
Buckskin North	91,720	-	(91,720)	-	-	-	-	-	-	-	-	-
Arasanli (Note 7c)	-	-	-	142,614	-	142,614	142,583	-	455	(143,038)	-	-
Total held for sale	3,073,770	-	(3,073,770)	142,614	-	142,614	142,583	-	455	(143,038)	-	-

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

Nine months ended September 30, 2014

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

7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)*a) Kinsley Mountain*

The Company holds a 79.1% interest in Kinsley Gold LLC ("KG LLC") (Note 12), the entity that holds the underlying lease and directly held claims that comprise the Kinsley Mountain property (together, "Kinsley").

The value of the non-controlling interest increased by \$1,314,774 during the nine months ended September 30, 2014 upon receipt of funding from the non-controlling interest holder, Intor Resources Corporation.

b) Goldstrike

On August 29, 2014 (the "Acquisition Date") the Company completed the acquisition of 100% of the issued and outstanding shares of Cadillac pursuant to a plan of arrangement (the "Arrangement"). Under the Arrangement, shareholders of Cadillac received (i) 0.12195 of a Pilot Gold common share ("Common Share"), and (ii) 0.12195 of a warrant to purchase a Common Share ("Warrant") for each common share of Cadillac held; a total of 4,218,164 Common Shares and 4,218,164 Warrants respectively. Each Warrant entitles the holder to acquire one Common Share at an exercise price of C\$2.00 with a two-year term. Existing Cadillac warrants ("Cadillac Warrants") and stock options ("Cadillac Options") acquired are exercisable for a Common Share, adjusted in respect of exercise price and number, based on the 0.12195 exchange ratio.

The transaction did not meet the definition of a business combination, and was therefore accounted for as an acquisition of an asset. Accordingly the acquisition has been recorded at cost, including transaction costs of \$562,920 recorded within Additions. Transactions costs comprise primarily legal and advisory fees, share issue costs and internal due diligence costs.

The total value of the consideration includes the fair value of the Common Shares and Warrants issued under the Arrangement, transaction costs and the fair value of the Cadillac Warrants and Cadillac Options acquired (the "Consideration"), was \$7,163,905. The fair value of each Warrant issued was determined using the Black Scholes valuation model; the significant inputs into the model were share price of C\$1.30, exercise price of C\$2.00, volatility of 68%, determined on the Company's historical data over an expected life of 2 years, and an annual risk-free interest rate of 1.10%, resulting in a fair value of C\$0.32 per Warrant. The fair value of the Cadillac Warrants and Cadillac Stock assumed was determined to be \$48,747.

The Consideration was allocated to the assets acquired based on relative fair values, with the exception of all financial assets acquired, which were recorded at fair value on the date of acquisition. The presumption in IFRS 2, 'Share Based Payments', that the fair value of the assets acquired can be reliably measured, has been rebutted and it has been determined that the fair value of the equity instruments granted in an arm's length transaction, is the measure of the fair value of the assets received. The allocation is preliminary, subject to change and expected to be finalised by year end:

Assets acquired and liabilities assumed:	
Cash	\$ 53,343
Available for sale investments	17,960
Reclamation deposit	13,740
Goldstrike mineral property	8,336,985
Net current liabilities	(1,250,123)
Asset retirement obligation	(8,000)
	<u>\$ 7,163,905</u>
Consideration paid:	
Issuance of Common Shares	5,050,408
Issuance of Warrants	1,243,177
Transaction costs	562,920
Drawdown on loan to Cadillac	258,653
Common Shares made issuable upon exercise of Cadillac Options and Cadillac Warrants	48,747
	<u>\$ 7,163,905</u>

PILOT GOLD INC.

(An exploration stage company)

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Nine months ended September 30, 2014

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

7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

c) Arasanli

The Arasanli property was held for sale as at December 31, 2013 and was subsequently written down to \$nil as a result of a review of recoverability of the portfolio of exploration and development assets.

8. OPTION TO EARN-IN TO TV TOWER (the “Earn-in Option”)

On September 20, 2012, the Company and certain of its subsidiaries entered into a share-purchase and joint venture agreement (the “TV Tower Agreement”) with Teck Resources Limited (“Teck”) and Teck Madencilik Sanayi Ticaret A.Ş (“TMST”), pursuant to which, shares equal to an additional 20% interest in Orta Truva will be transferred from TMST to the Company, such that the Company will hold a 60% interest and TMST will hold a 40% interest in Orta Truva. Orta Truva holds, or has beneficial interest in, the licenses that comprise TV Tower. During the period of earn-in, the Company is the project operator at TV Tower.

A total of \$21 million in eligible exploration expenditures (“Eligible Expenditures”) must be incurred prior to June 20, 2015 (the “TV Tower Expenditure Requirement”) to complete the Earn-in Option. A one-time cash payment equal to \$20 per ounce of gold applicable to 20% of the ounces of gold delineated at TV Tower in excess of 750,000 gold ounces defined as Measured, Indicated or Inferred resources in a National Instrument 43-101 *Standards of Disclosure for Mineral Projects* technical report, prepared generally concurrent with the completion of the TV Tower Expenditure Requirement may also be payable to TMST (the “Additional Consideration”).

Pursuant to the funding mechanism outlined in the TV Tower Agreement, and in order to maintain the relative interests of TMST and the Company in Orta Truva until the Earn-in Option obligations have been satisfied, 60% of the Eligible Expenditures in a given period are advanced by the Company to TMST and accounted for as a component of the Earn-in Option, a non-current asset. The remaining 40% is recorded to the Company’s interest in Orta Truva (Note 9).

The majority of Eligible Expenditures are incurred initially by the Company’s wholly-owned Turkish subsidiary. Pilot Gold invoices Orta Truva for services performed in the period, and Orta Truva, in turn invoices TMST and Pilot Gold, for their respective share of Eligible Expenditures for the period. Each shareholder subsequently funds Orta Truva such that it can settle the amount due.

The total value of the Earn-in Option asset as at September 30, 2014 consists of the following, and includes certain costs capitalized pursuant to the Company’s accounting policies, that are not Eligible Expenditures:

December 31, 2013	\$ 18,676,395
Eligible Expenditures	1,754,185
Non-eligible expenditures	41,227
Foreign exchange	(978,840)
September 30, 2014	\$ 19,492,967

9. INVESTMENT IN ASSOCIATES

Turkey

Pilot Gold owns 40% of Halılađa through a 40% ownership stake in Truva Bakır Maden İşletmeleri A.Ş. (“Truva Bakır”), a Turkish company, controlled (60%) by TMST, an indirect subsidiary of Teck. Pilot Gold also holds a 40% interest in Orta Truva. Pilot Gold became the operator of TV Tower on September 20, 2012 and has an option to acquire an additional 20% interest of Orta Truva (Note 8). Orta Truva is also controlled (60%) by TMST. Both Orta Truva and Truva Bakır are incorporated in Turkey.

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

Nine months ended September 30, 2014

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

9. INVESTMENT IN ASSOCIATES (continued)

Both of the Company's associates are unlisted, and as such fair values of the Company's investments are not determinable through an active market. The Company's associates are related parties.

	Truva Bakır	Orta Truva	Total
At December 31, 2013	\$ 6,278,213	\$ 8,680,003	\$ 14,958,216
Share of gain (loss)	2,922	(52,108)	(49,186)
Funding	123,406	1,182,391	1,305,797
Exchange differences	(331,688)	(465,056)	(796,744)
At September 30, 2014	\$ 6,072,853	\$ 9,345,230	\$ 15,418,083

Funding to Orta Truva for the nine months ended September 30, 2014 includes 40% of Eligible Expenditures incurred.

The summarised financial information for the Company's associates on a 100% basis and reflecting adjustments made by the Company, including adjustments for differences in accounting policies, is as follows:

Name	Current Assets	Non-Current Assets	Current Liabilities	Total Net Assets	Gain/(Loss)	% interest Company's Share	
						held	of Net Assets
Truva Bakır	\$ 2,347,068	\$ 12,938,814	\$ (103,750)	\$ 15,182,132	\$ 7,304	40%	\$ 6,072,853
OrtaTruva	4,117,820	20,313,018	(1,067,764)	23,363,074	(130,271)	40%	9,345,230
At September 30, 2014	\$ 6,464,888	\$ 33,251,832	\$ (1,171,514)	\$ 38,545,206	\$ (122,967)		\$ 15,418,083

As at September 30, 2014, the Company has outstanding receivables from Truva Bakır of \$32,971, and from Orta Truva of \$1,314,069 of which \$501,459 relate to Eligible Expenditures incurred and cash called by Orta Truva to its owners, subsequent to period end, and of which \$525,628 is attributable to the investment in associate and the remaining \$788,441 is attributable to the Earn-in Option asset. During the nine months ended September 30, 2014, a \$877,840 distribution was received from Orta Truva for the Company's share of a VAT refund from the Turkish tax authorities relating to periods prior to 2014.

10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	September 30, 2014	December 31, 2013
Trade payables	\$ 1,072,331	\$ 240,434
Other payables	53,758	85,934
Accrued liabilities	300,903	409,799
Amounts due to Orta Truva	258,076	357,714
Amounts due to Truva Bakır	11,275	48,259
Amounts due to TMST	309,575	536,574
Decommissioning Liability	35,399	30,000
	\$ 2,041,317	\$ 1,708,714

Accounts payable and accrued liabilities are non-interest bearing and are normally settled on 30-day terms. Amounts due to associates and TMST, 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. The decommissioning liability represents expected expenditures for site reclamation in the next twelve months.

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11. SHARE CAPITAL AND CONTRIBUTED SURPLUS*a) Authorized*

Unlimited Common Shares with no par value

b) Issued

On April 2, 2014, the Company completed a bought deal financing for aggregate gross proceeds of C\$20,000,160. A syndicate of underwriters purchased, on a bought deal basis, 13,072,000 Common Shares at a price of C\$1.53 per Common Share.

On August 29, 2014 the Company completed the acquisition of Cadillac (Note 7b), pursuant to which a total of 4,218,164 Common Shares with a fair value of \$5,050,408 (C\$5,483,613), were issued as partial consideration to the shareholders of Cadillac.

*c) Stock-based compensation**Pilot Gold Stock Option Plan*

Options granted to date under the Pilot Gold Stock Option Plan, as amended (the "Option Plan") to date are exercisable over periods of five or ten years. Options granted to Directors vest immediately, the remaining Options vest in thirds at the end of each year from the date of grant. Any consideration paid by the optionee on the exercise of Options is credited to share capital. Option transactions and the number of Options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
	#	C\$
Balance, December 31, 2013	6,920,000	2.60
Options granted	2,555,000	1.13
Options forfeited	(585,000)	2.50
Options exercised	(5,000)	1.08
Balance, September 30, 2014	8,885,000	2.18

At September 30, 2014, Pilot Gold had incentive 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\$0.01 to C\$0.99	250,000	4.32	0.88	-	-
C\$1.00 to C\$1.99	3,705,000	4.02	1.15	1,490,000	1.11
C\$2.00 to C\$2.99	1,585,000	3.44	2.15	838,333	2.16
C\$3.00 to C\$3.99	3,345,000	6.54	3.45	3,345,000	3.45
	8,885,000	4.87	2.18	5,673,333	2.65

For the purposes of estimating the fair value of options using Black-Scholes, 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. 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.

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

Nine months ended September 30, 2014

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

11. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

The weighted average fair value of Options granted during the period determined using Black-Scholes was C\$0.72 per Option. The weighted average of the significant inputs into the model were share price of C\$1.09 at the grant date, exercise price of C\$1.13, volatility of 72%, dividend yield of 0%, an expected Option life of 5 years, and an annual risk-free interest rate of 1.63%. A 2.72% forfeiture rate is applied to the Option expense.

For the nine months ended September 30, 2014, the Company has capitalized a total of \$176,150 of stock-based compensation to exploration properties and deferred exploration expenditures. For the nine months ended September 30, 2014, the Company charged a total of \$998,207 of stock-based compensation expense to the statement of loss, of which \$69,706 is attributed to property investigation.

Cadillac Acquisition Stock Option Plan

Pursuant to the acquisition of Cadillac (Note 7b), and as adjusted for the transaction ratio of 0.12195, the Company assumed 67,072 Cadillac Options each of which is exercisable for a Common Share. The weighted average exercise price of the Cadillac Warrants is C\$0.74. There were no forfeitures, expiries or exercises during the period.

Outstanding options are summarised as follows:

Prices	Number of Options outstanding and exercisable #	Weighted average remaining contractual life (in years)	Weighted average exercise price C\$
C\$0.41	48,780	0.91	0.41
C\$1.39	12,195	0.16	1.39
C\$2.05	6,097	0.91	2.05
	67,072	0.78	0.74

*d) Warrants:**Pilot Gold Warrants*

Warrant transactions and the number of Warrants outstanding are summarized as follows:

	Number of Warrants #	Weighted Average Exercise Price C\$
Balance, December 31, 2013	14,362,524	2.37
Warrants issued (Note 7b)	4,218,164	2.00
Warrants exercised or expired	-	-
Balance, September 30, 2014	18,580,688	2.28

As at September 30, 2014 the Company had the following Warrants outstanding:

Exercise price C\$	Number of Warrants outstanding and exercisable #	Weighted average remaining contractual life (in years)
2.00	4,218,164	1.92
2.20	11,362,524	0.09
3.00	3,000,000	0.72
2.37	18,580,688	0.60

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

Nine months ended September 30, 2014

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

Pursuant to the acquisition of Cadillac (Note 7b), and as adjusted for the transaction ratio of 0.12195, the Company assumed 135,962 Cadillac Warrants each of which is exercisable for a Common Share. The exercise price of the Cadillac Warrants is C\$1.64, and each has an expiry date of November 15, 2014. There were no forfeitures or exercises during the period.

12. NON-CONTROLLING INTEREST

Summary financial information for KG LLC, is as set out below. As KG LLC's expenditures are capitalised to the Kinsley property, there are no expenses recorded in the statement of loss. The information below is before inter-company eliminations.

a) Summarised Balance Sheet

	As at September 30, 2014	As at December 31, 2013
Current		
Assets	\$ 1,182,209	\$ 27,675
Liabilities	(305,985)	(47,676)
Total Current net assets	876,224	(20,001)
Non-Current		
Assets	17,194,764	11,723,674
Liabilities	(33,100)	(23,000)
Total Non-current net assets	17,161,664	11,700,674
Net Assets	\$ 18,037,888	\$ 11,680,673

b) Summarised cash flows

	Nine months ended September 30, 2014
Net cash flow from operating activities	(652)
Net cash inflow from financing activities	4,806,851
Net cash outflow from investing activities	(3,651,665)
Net cash increase in cash	1,154,534
Cash at the beginning of the period	27,675
Cash at the end of the period	1,182,209

See Note 7a for transactions with non-controlling interests.

13. COMMITMENTS*TV Tower*

Pursuant to the TV Tower Agreement, upon completion of all other conditions precedent (Note 8), the Company must remit the Additional Consideration to TMST. It is not possible at this time to estimate the amount or timing of Additional Consideration payable. See details in Note 8 for Eligible Expenditure requirements to be met in order to maintain the Earn-in Option in good standing.

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

Nine months ended September 30, 2014

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13. COMMITMENTS (continued)*Gold Bug*

Pursuant to an amended lease agreement Pilot Gold is required to incur a minimum of \$500,000 in expenditures on or before October 31, 2014. Failure to complete the minimum expenditures would require that the Company pay the balance in cash. In order to maintain the amended lease in good standing the Company must incur annual minimum expenditure requirements. As of October 31, 2014 the Company had satisfied the committed expenditure requirement, with confirmation pending from the lessor.

Leases

The Company has entered into operating leases for premises in 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. Office premises and other operating leases in Canada are paid to Oxygen Capital Corp. ("Oxygen"), pursuant to a technical and administrative services agreement with that company (the "Oxygen Agreement"). Upon termination of the Oxygen Agreement, the Company is required to indemnify Oxygen for costs associated with those agreements or obligations that had been executed or incurred by Oxygen in connection with, or related to the services provided to the Company by Oxygen. These amounts, as pertaining to non-cancellable leases, are included in the table below. The aggregate lease expenditure related to Pilot Gold's office premises charged to the statement of loss for the nine months ended September 30, 2014 is \$216,290.

Total future minimum lease payments, under non-cancellable operating leases as at September 30, 2014 are as follows:

Year	
2014	\$ 77,074
2015	169,754
2016	145,153
2017	145,153
2018+	1,051,719
	\$ 1,588,852

The Company is also responsible for its share of property taxes and operating costs on office premises leases in Canada, Turkey and the United States.

14. SEGMENT INFORMATION

The Company's operations are in one segment, the exploration for gold, copper and other precious and base metals. At September 30, 2014 and at December 31, 2013, Pilot Gold has three geographic locations: Canada, the USA, and Turkey. The total assets attributable to the geographic locations relate primarily to the exploration properties and deferred exploration expenditures held by the Company and its associates, and have been disclosed in Notes 7, 8 and 9. The net loss is distributed by geographic segment per the table below:

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Canada	\$ 1,222,349	\$ 853,967	\$ 3,976,734	\$ 4,377,549
USA	174,075	422,100	715,151	2,956,250
Turkey	(74,917)	(60,692)	45,283	236,403
	\$ 1,321,507	\$ 1,215,375	\$ 4,737,168	\$ 7,570,202

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

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

14. SEGMENT INFORMATION (continued)

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

	September 30, 2014	December 31, 2013
Canada	\$ 95,457	\$ 119,897
USA	301,943	364,119
Turkey	60,158	70,089
	<u>\$ 457,558</u>	<u>\$ 554,105</u>

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

15. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing transactions:

	September 30, 2014	September 30, 2013
Non-cash financing and investing transactions		
Issuances of Common Shares on financing	\$ 18,130,145	\$ -
Issuances of Common Shares and Warrants to Teck pursuant to the Earn-in Option	-	4,664,974
Issuance of Common Shares in partial consideration in Karaayı Purchase	-	1,336,912
Issuance of Common Shares and Warrants in consideration for mineral properties (Note 7b)	6,178,884	211,473
Change in fair value of financial instruments recognised in OCI	593,077	(150,661)
Reclassification of losses from OCI into statement of loss	22,655	131,620
Stock based compensation included in mineral properties (Note 11)	176,150	93,630
	<u>\$ 25,100,911</u>	<u>\$ 6,287,948</u>

16. RELATED PARTY TRANSACTIONS

In addition to the following, the Company's related parties include its subsidiaries, and associates over which it exercises significant influence. Transactions with the Company's associates are described at Note 9.

Oxygen Capital Corp

Oxygen is a private company owned by three directors and one officer of the Company. Oxygen provides services on a cost-recovery basis to the Company and provides access to technical personnel, office rental, the use of the assets including IT infrastructure and other administrative functions on an as-needed basis that would not necessarily otherwise be available to Pilot Gold at this stage of the Company's development. Related party transactions during the period total \$624,111 in expenditures, reflected in the Company's consolidated statement of loss and comprehensive loss and statement of financial position. As at September 30, 2014, Oxygen holds a refundable deposit of \$283,687 on behalf of the Company. Additionally, as at September 30, 2014 the Company held a payable to Oxygen of \$132,228. Amounts payable were settled subsequent to September 30, 2014. See also Note 13 for details on commitments related to lease arrangements.

PILOT GOLD INC.

(An exploration stage company)

Notes to the Condensed Interim Consolidated Financial Statements

Nine months ended September 30, 2014

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

16. RELATED PARTY TRANSACTIONS (continued)

Compensation of key management personnel

Key management includes members of the Board, the President and Chief Executive Officer, the VP Exploration, the Chief Financial Officer & Corporate Secretary, and the Country Managers. The aggregate total compensation paid, or payable to key management for employee services is shown below:

	September 30, 2014	September 30, 2013
Salaries and other short-term employee benefits	\$ 815,283	\$ 887,539
Share-based payments	719,062	1,173,834
Total	\$ 1,534,345	\$ 2,061,373