Pilotgold

An exploration stage company

Consolidated Financial Statements

(Expressed in US Dollars)
Year ended December 31, 2012

March 27, 2013

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, 2012 and December 31, 2011 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

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Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2012 and December 31, 2011 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

signed "PricewaterhouseCoopers LLP"

Chartered Accountants

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

	As at December 31, 2012	As at December 31, 2011
	$	$
Assets		
Current assets		
Cash	30,224,184	7,391,497
Short term investments	7,156,180	11,028,857
Receivables (Note 6)	1,035,422	309,295
Prepayments	193,561	165,863
Exploration properties held for sale (Notes 9b and 23)	3,073,770	-
Total current assets	41,683,117	18,895,512
Non-current assets		
Earn-in option (Note 7)	7,239,057	-
Deposits (Note 8)	490,785	250,283
Exploration properties and deferred exploration expenditures (Note 9)	9,236,011	9,129,967
Plant and equipment (Note 10)	622,930	714,024
Other financial assets (Note 11)	1,190,202	456,870
Investment in associates (Note 12)	11,926,778	8,046,606
Total non-current assets	30,705,763	18,597,750
Total assets	72,388,880	37,493,262
Liabilities and Shareholders' Equity		
Current liabilities		
Accounts payable and other liabilities (Note 13)	1,258,365	999,502
Decommissioning liability	30,000	50,484
Total current liabilities	1,288,365	1,049,986
Non-current liabilities		
Deferred tax liabilities	-	52,536
Other liabilities	42,592	21,137
Total non-current liabilities	42,592	73,673
Shareholders' equity		
Share capital (Note 15)	126,912,393	92,123,392
Warrants issued (Note 15)	5,103,994	-
Contributed surplus (Note 15)	8,787,402	6,599,039
Accumulated other comprehensive loss	(723,065)	(1,349,229)
Accumulated deficit	(69,022,801)	(61,003,599)
Total shareholders' equity	71,057,923	36,369,603
Total liabilities and shareholders' equity	72,388,880	37,493,262

The notes on pages 5 to 35 are an integral part of these consolidated financial statements.

These financial statements are approved by the board and authorised for issue on March 27, 2013:

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

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

	Year ended December 31,	
	2012	2011
	$	$
Operating expenses		
Wages and benefits	2,295,496	1,201,229
Stock based compensation (Note 15)	1,717,822	5,900,670
Office and general	1,518,193	1,241,232
Property investigation (Note 16)	557,904	1,707,421
Investor relations, promotion and advertising	456,305	335,822
Professional fees	414,376	466,283
Depreciation	219,490	324,448
Listing and filing fees	77,456	303,645
Write down of deferred exploration expenditures (Note 9b & g)	1,523,762	137,984
Loss on disposal of plant and equipment (Note 10)	29,027	89,490
Loss from operations	8,809,831	11,708,224
Other income (expenses)		
Change in fair value of financial instruments (Note 11)	(155,843)	(38,575)
Management fees (Notes 7 and 12)	383,263	6,924
Other net income (expenses)	25,784	(54,316)
Write up (down) of VAT receivable (Note 6)	310,874	(290,110)
Finance income	187,719	231,643
Foreign exchange gains (losses)	82,114	56,951
Income (loss) from associates (Note 12)	(95,818)	4,762
	738,093	(82,721)
Loss before tax	8,071,738	11,790,945
Income tax recovery (expense)	52,536	(49,985)
Loss for the period	8,019,202	11,840,930
Other comprehensive loss		
Exchange differences on translating foreign operations	693,221	(1,523,756)
Net fair value loss on financial assets (Note 11)	(67,057)	(55,794)
Other comprehensive income (loss) for the period, net of tax	626,164	(1,579,550)
Total loss and comprehensive loss for the period	7,393,038	13,420,480
Loss per share		
Basic and diluted	$ 0.12	$ 0.21
Weighted average number of Common Shares Basic and diluted (Note 15)	64,630,088	55,281,973

The notes on pages 5 to 35 are an integral part of these consolidated financial statements.

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

	Number of Common Shares[1]	Share capital	Warrants	Contributed surplus	Accumulated other comprehensive income (loss)	Accumulated deficit	Total shareholders' equity
	#	$	$	$	$	$	$
Balance as at January 1, 2011	2,500,000	1,215,000	-	10,016,247	230,321	(3,633,755)	7,827,813
Funding and expenses paid by Fronteer and its subsidiaries	-	-	-	10,131,534	-	-	10,131,534
Net assets contributed by Fronteer and its subsidiaries	-	-	-	46,485,989	-	-	46,485,989
Adjustment for shares to be issued in connection with the Fronteer Arrangement	-	-	-	(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	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
Issuances resulting from financing	22,725,047	33,040,287	4,557,281	-	-	-	37,597,568
Issuances as consideration for mineral property rights (Notes 7, 9 and 15)	3,400,000	3,719,758	546,713	-	-	-	4,266,471
Share issue costs	-	(1,971,044)	-	-	-	-	(1,971,044)
Stock based compensation (Note 15)	-	-	-	2,188,363	-	-	2,188,363
Unrealized loss on long-term investments	-	-	-	-	(795,542)	-	(795,542)
Recognised loss on long-term investments on impairment (Note 11)	-	-	-	-	727,419	-	727,419
Exchange on unrealized loss on long-term investments	-	-	-	-	1,066	-	1,066
Cumulative translation adjustment	-	-	-	-	693,221	-	693,221
Net loss for the period	-	-	-	-	-	(8,019,202)	(8,019,202)
Balance as at December 31, 2012	85,210,333	126,912,393	5,103,994	8,787,402	(723,065)	(69,022,801)	71,057,923

[1] On April 4th 2011, pursuant to the Fronteer Arrangement (Note 1), the number of the Company's pre consolidation common shares were consolidated on a one-for-four basis. Accordingly the number of Common Shares presented for the comparative period have been adjusted to reflect the impact of consolidation.

The notes on pages 5 to 35 are an integral part of these consolidated financial statements.

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

	Year ended December 31,	
	2012	2011
	$	$
Cash flows from operating activities		
Loss for the period	(8,019,202)	(11,840,930)
Adjusted for:		
Stock based compensation	1,951,752	6,331,857
Depreciation	219,490	324,448
Write-down of deferred exploration expenditures (Note 9b & g)	1,523,762	137,984
Loss on disposal of property and equipment	29,027	95,329
Change in fair value of financial instruments	155,843	38,575
Write down (up) of VAT recoverable (Note 6)	(310,874)	290,110
Foreign exchange not related to cash	42,321	(16,112)
Non-cash other (income) expense	(20,753)	23,323
Change in provision	21,455	21,137
Loss (gain) from associates	95,818	(4,762)
Interest income on short term investments	(58,724)	(105,774)
Deferred income taxes	(52,536)	49,985
Movements in working capital:		
Accounts receivable and prepayments	(222,431)	(71,103)
Accounts payable and other liabilities	226,834	250,264
Cash deposit to Oxygen Capital Corp. (Note 8)	(240,314)	-
Net cash outflow due to operating activities	(4,658,532)	(4,475,669)
Cash flows from financing activities		
Funding received from Fronteer for operations	-	1,176,472
Cash received from financing	37,646,313	25,810,450
Share issue costs	(1,971,044)	(1,635,968)
Cash received pursuant to the Fronteer Arrangement	-	9,819,540
Cash (used in) generated by financing activities	35,675,269	35,170,494
Cash flows from investing activities		
Change in working capital attributable to deferred exploration expenditures	(361,947)	228,573
Purchase of short term investments	(7,035,700)	
Maturity of short term investments	11,048,334	-
Acquistion of financial assets	(751,350)	(11,274,980)
Purchase of property and equipment	(167,571)	(199,997)
Proceeds from sale of equipment	7,103	5,839
Funding to Associates	(3,945,689)	(4,693,358)
Acquistion of mineral property interests	(98,790)	(350,000)
Expenditures towards option to earn-in	(2,806,225)	-
Interest in exploration properties and deferred exploration expenditures	(4,326,742)	(5,938,638)
Recoveries on mineral properties	26,126	140,000
Purchase of reclamation deposits	-	(250,000)
Net cash outflow due to investing activities	(8,412,451)	(22,332,561)
Effect of foreign exchange rates	228,401	(1,057,733)
Net increase in cash and cash equivalents	22,832,687	7,304,531
Cash at beginning of period	7,391,497	86,966
Cash at end of the period	30,224,184	7,391,497

See Note 21 for supplemental cash flow information

1. GENERAL INFORMATION

Pilot Gold Inc. ("Pilot Gold", or the "Company"), is an exploration stage business engaged in the acquisition and exploration of high quality mineral properties featuring compelling grades and meaningful size in mining-friendly jurisdictions. The Company is principally engaged in the exploration and development of mineral resource properties located in in the United States and Turkey. 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.

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"):

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 Madencılık Şanayi ve Ticaret A.Ş. ("Orta Truva") and Truva Bakır Maden İşletmeleri A.Ş. ("Truva Bakır") the Turkish joint stock companies that hold TV Tower and Halilağa;

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 (the "Rae-Wallace Option"); and

v. C$9.58 million ($9.82 million) in cash, a 40% beneficial interest in the Dededaği exploration property in Turkey, and the physical assets of the Vancouver office.

In connection with the Fronteer Arrangement, the pre-consolidation common shares were immediately consolidated on a one-for-four basis (the "Common Shares").

Shareholder 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 C$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".

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 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 consolidated financial statements were authorized for issue by the Board of Directors (the "Board") on March 27, 2013.

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

In accordance with the continuity of interest basis of accounting, the comparative period in 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 comparative periods does not necessarily reflect the nature and level of the Company's future operating expenses.

3. 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 specific 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") as at that time. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

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, 2012 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%
Kinsley Gold LLC [(1)]	Mineral exploration	United States	51%
Agola Madencilik Limited Sirketi ("Agola")	Mineral exploration	Turkey	100%
Pilot Holdings Inc.	Holding company	Cayman Islands	100%
Pilot Investments Inc.	Holding company	Cayman Islands	100%

(1) Subsequent to year end the Company's ownership interest was increased to 65% (Note 23).

(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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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.

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.

Pilot Gold Inc. raises its financing and carries out head office expenditures in Canadian dollars, giving rise to a Canadian dollar functional currency. In order to enhance comparability with our peers and as a better representation of the principal currency used by the mining and mineral exploration industry, the presentation currency of these consolidated financial statements is United States dollars. Any assets and liabilities of the Company held in foreign currencies 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Plant and equipment
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.

The major categories of 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, earn-in option, or investment in associate as appropriate. 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 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 carrying amount and fair value less costs to sell.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

(l) 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.

(m) 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) 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 financial assets 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.

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.

(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 loss. Pilot Gold's short term investments are in this category.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(o) 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.

(p) 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 ("Black-Scholes") 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.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to use estimates and assumptions that affect the reported amounts of assets, liabilities and expenses. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The critical judgements required when preparing the Company's accounts are as follows:

i) Review of asset carrying values and impairment assessment
Resource exploration is a speculative business and involves a high degree of risk. There is no certainty that the expenditures made by the Company in the exploration of its property interests will result in discoveries of commercial quantities of minerals. Exploration for mineral deposits involves risks which even a combination of professional evaluation and management experience may not eliminate. Significant expenditures are required to locate and estimate ore reserves, and further the development of a property. Capital expenditures to bring a property to a commercial production stage are also significant. There is no assurance the Company has, or will have, commercially viable ore bodies. There is no assurance that the Company will be able to arrange sufficient financing to bring ore bodies into production.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

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 the Company's investment interests in associates, the carrying value of its exploration property interests and deferred exploration expenditures, and the fair value of those Warrants issued to Teck Madencılık Sanayi Ticaret A.Ş ("TMST") which form part of the Earn-in Option asset. There were no assumptions deemed highly uncertain underlying management's estimate of recoverability of these assets. Recoverability of the carrying amount of the exploration properties, and of Pilot Gold's interest in associates is dependent on successful development and commercial exploitation, or alternatively, sale of the respective assets. Recoverability of the carrying amount of the Earn-in Option is dependent on upon successfully meeting the earn-in requirements of the TV Tower Agreement (Note 7). Changes in any of the assumptions used to determine impairment testing could materially affect the result of this analysis.

At December 31, 2012, the Company decided to write down the value of deferred exploration expenditures relating to the Hannapah, Baxter Springs, Cold Springs, Sandy and Yuntdağ exploration properties, further to a review and prioritisation of the Company's portfolio of mineral property assets, and the Regent property, further to an estimation of expected realizable value. There were no indicators of impairment on the Company's other assets.

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.

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

The fair value of stock options granted and warrants issued is computed to determine the relevant charge to the consolidated statement of loss, and related obligation as applicable. In order to compute this fair value, the Company uses Black-Scholes; this 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 or warrant liability recorded in equity.

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. The expected life is based on the date of expiry.

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.

4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

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.

5. RECENT ACCOUNTING PRONOUNCEMENTS

(i) Accounting standards impacting 2013 calendar year

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.

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)

(ii) Accounting standards impacting 2015 calendar year

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. RECEIVABLES

	December 31, 2012	December 31, 2011
VAT Receivable	$ 859,724	$ -
HST Receivable	84,811	100,555
Other Receivables	90,887	208,740
	$ 1,035,422	$ 309,295

In the prior year, the Company had written down a VAT receivable held in our Turkish subsidiary after assessing it to be not recoverable due to the subsidiary's level of activity at that time. The Company's current activity in Turkey has resulted in a change in management's assessment on the recoverability of the VAT resulting in a write up to the consolidated statement of loss and comprehensive loss of $310,874 recorded in other income.

7. OPTION TO EARN-IN TO TV TOWER (the "Earn-in Option")

On June 20, 2012 (the "TV Tower Effective Date"), 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 TMST, pursuant to which, shares equal to a 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 the licenses that comprise TV Tower. During the period of earn-in, the Company will be the project operator at TV Tower, but does not have control of Orta Truva. Successful completion of the Earn-in Option requires:

a) incurring $21 million in eligible exploration expenditures ("Eligible Expenditures") over three years (the "TV Tower Expenditure Requirement"), with a minimum commitment of $5 million in the first year;

b) issuing 3,275,000 Common Shares and 3,000,000 Common Share purchase warrants ("Teck Warrants") to TMST within five business days of signing the TV Tower Agreement. Each Teck Warrant is exercisable for a period of three years from the date of issue and shall be exercisable for one Common Share at an exercise price of C$3.00 per share;

c) issuing 1,637,500 Common Shares to TMST on the first and second anniversaries of the date the TV Tower Agreement was signed; and

(Expressed in United States Dollars, unless otherwise noted)

7. OPTION TO EARN-IN TO TV TOWER (continued)

d) making a one-time cash payment to TMST equal to $20 per ounce of gold applicable to only 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 (the "Additional Consideration").

The aggregate Expenditure of $5 million in the first year is a committed amount to TMST subject to penalty (Notes 19 and 23). If Expenditures after one year are less than $3.75 million, the Earn-in Option terminates but the remainder is payable in cash to TMST. If Expenditures of between $3.75 million and $5 million are made, and the Company intends to continue with the Earn-in Option, any shortfall to $5 million is payable in cash to TMST and an amount equal to the shortfall is added to the work commitment for the second year. The Earn-in Option will increase as expenditures are incurred. Although not subject to penalty, the remainder of the TV Tower Expenditure Requirement must be incurred as $7 million in the second year from the TV Tower Effective Date, and $9 million in the third year from the TV Tower Effective Date. The Company can accelerate the rate at which it incurs Eligible Expenditures.

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, 40% of the Eligible Expenditures in a given period are recorded to the Company's interest in Orta Truva (note 12), with the remaining 60% recorded as a component of the Earn-in Option, a non-current asset.

The total value of the Earn-in Option asset as at December 31, 2012 consists of the following, and includes costs capitalized that are not part of the TV Tower Expenditure Requirement:

	December 31, 2012
Eligible Expenditures (includes $219,750 in management fees)	$ 2,878,543
Legal costs	147,435
Value of Common Shares and Teck Warrants issued	4,213,079
Total	**$ 7,239,057**

$2,429,955 of Eligible Expenditures incurred in the period were invoiced in the period subsequent to December 31, 2012. A mark-up of 10% for administration is charged to Orta Truva on Eligible Expenditures and this is recorded as management fees on the statements of loss and comprehensive loss.

8. DEPOSITS

On August 1, 2012 Pilot Gold entered into a management services agreement (the "Management Agreement") with Oxygen Capital Corp. ("Oxygen"), a related party, whereby Oxygen provides geological, engineering, corporate development, administrative, shareholder communication and management services to the Company. The Company paid an advance deposit of $240,314 to Oxygen that on termination of the Management Agreement will be applied against the final three months of services, see also related party transactions in Note 22.

The Company holds $250,471 in Certificates of Deposit with a US bank, to back certain standby letters of credit, in order to meet bonding requirements with the Bureau of Land management on its mineral properties in the USA.

9. 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.

(Expressed in United States Dollars, unless otherwise noted)

9. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

	Total January 1, 2012	Transfer to held for sale	Additions/ Allocations	Recovery from third party	Write-down or disposal of asset	**Total December 31, 2012**
	$	$	$	$	$	**$**
USA						
Kinsley Mountain (Note 9a)	**1,133,509**		3,676,068	-	-	**4,809,577**
Griffon (Note 9c)	**2,772**		413,199	-	-	**415,971**
Gold Bug (Note 9d)	**-**		126,130	-	-	**126,130**
Regent	**3,712,065**	(3,712,065)	-	-	-	**-**
New Boston	**1,228,439**		52,677	-	-	**1,281,116**
Easter (Note 9f)	**135,711**		32,722	(25,000)	-	**143,433**
Brik	**715,986**		27,612	-	-	**743,598**
Viper	**988,422**		25,413	-	-	**1,013,835**
Baxter Springs (Note 9g)	**271,295**		12,737	-	(284,032)	**-**
Stateline	**220,853**		31,245	-	-	**252,098**
Cold Springs (Note 9g)	**199,916**		5,485	-	(205,401)	**-**
Anchor	**183,998**		12,585	-	-	**196,583**
Buckskin North	**86,966**	(86,966)	-	-	-	**-**
Other (Note 9g)	**71,292**		90,501	-	(48,774)	**113,019**
Total USA	**8,951,224**	(3,799,031)	4,506,374	(25,000)	(538,207)	**9,095,360**
Turkey						
Arasanli	**-**		140,651	-	-	**140,651**
Yuntdağ (Note 9g)	**3,624**		1,126	(1,126)	(3,624)	**-**
Total Turkey	**3,624**	-	141,777	(1,126)	(3,624)	**140,651**
Peru						
Rae Wallace (Notes 9e and 11c)	**175,119**		-	-	(175,119)	**-**
Total	**9,129,967**	(3,799,031)	4,648,151	(26,126)	(716,950)	**9,236,011**
Assets held for sale: (Note 23)						
Regent (Note 9b)	-	3,712,065	251,916	-	(981,931)	2,982,050
Buckskin North (Note 9h)	-	86,966	4,754	-	-	91,720
Total held for sale	-	3,799,031	256,670	-	(981,931)	3,073,770

(Expressed in United States Dollars, unless otherwise noted)

9. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

	Total January 1, 2011	Transfer to held for sale	Additions/ Allocations	Transfer to Newmont	Write down of assets held for sale	Recovery from third party earn-in	Transfer of asset	Total December 31, 2011
	$	$	$	$	$	$	$	$
USA								
Kinsley	-	-	1,133,509	-	-	-	-	1,133,509
Griffon	-	-	2,772	-	-	-	-	2,772
Gold Springs 2	250,000	-	8,981	-	-	(160,000)	(98,981)	-
Regent	702,234	-	3,009,831	-	-	-	-	3,712,065
New Boston	327,510	-	900,929	-	-	-	-	1,228,439
Easter	150,000	-	5,711	-	-	(20,000)	-	135,711
Brik	177,700	-	538,286	-	-	-	-	715,986
Viper	319,254	-	669,168	-	-	-	-	988,422
Baxter Springs	163,411	-	107,884	-	-	-	-	271,295
Stateline	150,000	-	70,853	-	-	-	-	220,853
Cold Springs	175,706	-	24,210	-	-	-	-	199,916
Anchor	154,657	-	29,341	-	-	-	-	183,998
Buckskin North	63,029	-	23,937	-	-	-	-	86,966
Other	-	-	71,292	-	-	-	-	71,292
Total USA	2,633,501	-	6,596,704	-	-	(180,000)	(98,981)	8,951,224
Turkey								
Ispir	170,909	(170,909)	-	-	-	-	-	-
Aktarma	62,330	(62,330)	-	-	-	-	-	-
TV Tower	-	-	-	-	-	-	-	-
Yuntdağ	11,540	-	2,920	-	-	(10,836)	-	3,624
Total Turkey	244,779	(233,239)	2,920	-	-	(10,836)	-	3,624
Peru	175,490	-	(371)	-	-	-	-	175,119
Total	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)	-	-	-	-
Ispir	-	170,909	23,445	-	(102,437)	-	(91,917)	-
Aktarma	-	62,330	24,705	-	(35,547)	-	(51,488)	-
Total held for sale	27,724	233,239	48,150	(27,724)	(137,984)	-	(143,405)	-

In accordance with the application of the continuity of interest basis of accounting (Note 2), costs associated with those properties acquired pursuant to the Fronteer Arrangement have been allocated such that historic expenditure of Fronteer through to the Effective Date has been recognized by Pilot Gold. Expenditures incurred subsequent to March 30, 2011 reflect actual cash flows and activities of Pilot Gold.

(Expressed in United States Dollars, unless otherwise noted)

9. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

	USA	Turkey	Peru	Total	Assets Held for sale
	$	$	$	$	$
January 1, 2011	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	-	-	-	-	(137,984)
Sale of Aktarma and Ispir properties	-	-	-	-	(143,405)
Transfer to Newmont	-	-	-	-	(27,724)
Cumulative translation adjustment	96	(58)	(2,951)	(2,913)	(20)
Transfer of asset to Gold Springs LLC	(98,981)	-	-	(98,981)	-
Recovery from option holders	(180,000)	(10,836)	-	(190,836)	-
Held for sale	-	(233,239)	-	(233,239)	233,239
December 31, 2011	8,951,224	3,624	175,119	9,129,967	-
Drilling	1,640,423	-	-	1,640,423	-
Wages, salaries and stock based compensation	887,123	8,474	-	895,597	72,185
Assaying & geochemical	475,267	20,080	-	495,347	6,821
Acquisition costs	250,577	99,916	-	350,493	-
Environmental	355,096	-	-	355,096	59,159
Property maintenance	291,102	-	-	291,102	58,388
Geology and geophysics	236,979	2,827	-	239,806	14,761
Administrative and other	110,471	9,445	-	119,916	19,458
Camp & field costs	73,312	1,035	-	74,347	2,877
Leases, royalty and option payments	66,378	-	-	66,378	-
Other	94,646	-	-	94,646	23,021
Held for sale	(3,799,031)	(1,126)	-	(3,800,157)	3,799,031
Write down or disposal of deferred exploration expenditures	(538,207)	(3,624)	(175,119)	(716,950)	(981,931)
December 31, 2012	**9,095,360**	**140,651**	**-**	**9,236,011**	**3,073,770**

9. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

a) *Kinsley Mountain*

In exchange for consideration valued at $450,140, the Company was assigned an option agreement (the "Kinsley Option") from Animas Resources Ltd. ("Animas") providing the ability to earn-in to an initial 51% interest, and the opportunity to elect to earn-into a further 14% interest in the underlying lease that comprises the majority of the Kinsley Mountain property (the lease interest and directly held claims together, ("Kinsley"). The Kinsley Option required the option holder to incur $1,500,000 in aggregate exploration expenditures in order to exercise the initial option. At the time the Kinsley Option was assigned, the lessor, Nevada Sunrise Gold Corporation ("NSGC") agreed to recognize $316,141 of expenditures incurred by Animas as eligible toward the initial earn-in.

On May 9, 2012, the Company received approval from NSGC that it had completed its exploration commitment under the Kinsley Option and concurrently notified NSGC of its intention to undertake the second option expenditure requirement to earn a total of a 65% interest in Kinsley Mountain (Note 23). To earn the additional 14% interest, the Company must sole fund $3,000,000 in exploration expenditures over a five-year period from the initial earn-in date.

The Company has also determined to contribute the mineral claims formerly known as Kinsley North and other claims with the defined area of interest toward the initial earn-in. NSGC has similarly agreed to contribute claims that it had staked within and around the defined project area of interest.

Upon incurring the initial earn-in expenditure, the Company and NSGC were deemed to have entered into a legal joint venture, with an undivided 51% beneficial interest in Kinsley transferred to Pilot Gold. As the formal transfer of the property into Kinsley Gold LLC is pending, the Company is currently accounting for its interest in Kinsley as an interest in an asset.

The joint venture will be required to make advance royalty payments to Nevada Sunrise, LLC ("NSL"), a private Nevada-based company, in accordance with the underlying lease agreement, beginning with a payment of $50,000 per year through 2016, increasing in stages up to $200,000 per year in 2020 and beyond. A maximum 4% net smelter return royalty ("NSR") is also payable through the lease to NSL, and may be reduced to 2% through a series of payments at the Company's election.

Pursuant to the assignment agreement by which the Company acquired the Kinsley Option, in aggregate, the Company has issued 125,000 Common Shares to Animas. A further 25,000 Commons Shares are due on the second anniversary of the assignment.

b) *Regent*

The Company agreed to terms with Rawhide Mining LLC ("Rawhide") for the disposal of the Regent property on November 2, 2012. Further to having continued discussions with Rawhide through year end, management determined to re-classify the deferred exploration expenditures at Regent to held for sale. Accordingly, the carrying value of Regent has been written down to $2,982,050 equal to fair value less an estimate of costs to sell (Note 23).

c) *Griffon*

Pilot Gold has the option to earn-in to an initial 60% of the Griffon property by paying Nevada Clean Magnesium Inc. (formerly Molycor Gold Corp. ("Molycor")) a total of $119,636 cash over 4 years, issuing an aggregate of 120,000 Common Shares and upon incurring a total of $750,000 of exploration expenditures prior to the fourth anniversary of the related agreement (the "Griffon Agreement"). Initially, and by the earlier of February 7, 2014 or upon receipt of first phase drilling permits, to maintain the option in good standing, the Company must incur $100,000 in exploration and development expenses and issue 40,000 Common Shares. As at December 31, 2012 a total of $39,636 cash had been paid to Molycor, and a total of $413,199 in exploration expenditures have been incurred on Griffon. The Griffon Agreement also provides the Company an option to earn an additional 10% interest further to making additional exploration expenditures prior to the third anniversary following the initial 60% earn-in. Griffon is subject to a 2% NSR, 1% of which can be purchased at the Company's election.

9. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

d) Gold Bug

On June 5, 2012 the Company acquired the Gold Bug property (formerly known as Gold Springs 1) from a subsidiary of Crown Gold Corporation for consideration of C$50,000 and 50,000 Common Shares, total value $94,413. Pursuant to an amended lease on the property with a subsidiary of Newmont signed on August 31, 2012, the Company has agreed to a $3,000,000 work commitment over 6 years (Note 19). Gold Bug is subject to a 3% NSR, which will increase to 5% if the Company does not complete the work commitments.

e) Rae- Wallace

On July 18, 2012 an agreement was signed between Pilot Gold and Rae-Wallace whereby the Company agreed to terminate the Rae-Wallace Option in exchange for 1,985,100 shares in Rae-Wallace and an extension to the terms of the 1,000,000 warrants currently held, to 24 months from the date on which Rae-Wallace completes a Transaction (as that term is defined in the related agreement), the carrying value of the Rae-Wallace Option was written down accordingly.

Additionally, subject to Rae-Wallace completing a Transaction, the Company will receive the following additional consideration from Rae-Wallace:

(i) a 2% NSR on all of Rae-Wallace's Peruvian projects except the Liscay Project;

(ii) additional shares in the capital of Rae-Wallace to maintain the Company's ownership interest in Rae-Wallace after giving effect to a Transaction;

(iii) additional Rae-Wallace share purchase warrants exercisable for an additional 9.99% of the shares of Rae-Wallace after giving effect to a Transaction; and

(iv) a right of first offer in the event that Rae-Wallace wishes to explore or develop any of Rae-Wallace's projects in Peru with a third party.

f) Farm-out arrangements

Prior to the closing of the Fronteer Arrangement a subsidiary of Fronteer had granted an option to La Quinta Resources Corporation ("La Quinta") to earn-in to an interest in the Easter exploration property ("Easter"). La Quinta announced on September 11, 2012 that it has terminated its Easter property option and earn-in agreement. As a part of the termination agreement, La Quinta has transferred the property title and related mineral claims back to Pilot Gold.

g) Write-downs

During the year ended December 31, 2012, the Company decided to write down the value of deferred exploration expenditures relating to the Hannapah, Baxter Springs, Cold Springs and Sandy exploration properties, further to a review and prioritisation of the Company's portfolio of mineral property assets. In addition, the licenses on the Yunt Dağ property in Turkey were dropped during December 2012.

During the year ended December 31, 2011, the fair value of the Company's interests in the Ispir and Aktarma properties was written down to net realisable value, prior to their transfer to Global Resources Corporation Ltd Pty ("GRCL") on September 20, 2011 in exchange for 4,500,000 common shares (Note 11). The Company retains a 2% NSR upon attainment of production on all products mined in accordance with the associated licenses at Ispir and Aktarma.

h) Buckskin North

Pursuant to the signing of a non-binding term sheet with a third party, Buckskin North was deemed held for sale as at December 31, 2012 and was classified as a current asset. Subject to a due diligence period and the conditions of the term sheet being met, the property will be sold in exchange for equity and minimum work commitments on the property from the third party.

(Expressed in United States Dollars, unless otherwise noted)

10. PLANT AND EQUIPMENT

	Field equipment	Equipment	Computer software	Furniture and fixtures	Leasehold improvements	Total
Cost:	$	$	$	$	$	$
Balance as at January 1, 2011	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
Additions	9,628	98,698	45,271	21,124	-	174,721
Disposals	(61,588)	(67,771)	-	(10,957)	(221,760)	(362,076)
Cumulative translation adjustment	885	5,487	2,746	4,439	2,919	16,476
Balance as at December 31, 2012	**46,453**	**711,577**	**269,416**	**291,763**	**308,887**	**1,628,096**
Depreciation:						
Balance as at January 1, 2011	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
Current period depreciation	10,069	93,045	39,465	30,311	61,507	234,397
Disposals	(43,795)	(54,735)	-	(5,659)	(221,760)	(325,949)
Cumulative translation adjustment	562	3,434	2,327	2,525	2,919	11,767
Balance as at December 31, 2012	**13,907**	**410,794**	**233,253**	**174,493**	**172,719**	**1,005,166**
Net Book Value:						
As at December 31, 2011	50,457	306,113	29,938	129,841	197,675	714,024
As at December 31, 2012	**32,546**	**300,783**	**36,163**	**117,270**	**136,168**	**622,930**

Equipment consists of automobiles, and automotive equipment, and computer hardware. Furniture and fixtures includes $7,150 of assets under finance lease arrangements.

During the period a total of $36,127 (year ended December 31, 2011 - $82,733) in charges to write off certain items deemed to have reached the end of their useable life are included in operating expenses. In addition, a number of fixed assets with a total cost of $223,696 and nil net book value, which were no longer deemed usable, were removed from the register during the period.

(Expressed in United States Dollars, unless otherwise noted)

11. OTHER FINANCIAL ASSETS

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 Black-Scholes 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, 2012:

	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

	Financial assets at fair value as at December 31, 2012			
	Level 1	Level 2	Level 3	Total
Equities (a)(b)(c)	$ 1,114,979	$ -	$ -	$ 1,114,979
Share purchase warrants (c)	-	75,223	-	75,223
	$ 1,114,979	**$ 75,223**	**$ -**	**$ 1,190,202**

a) On February 14, 2012, the Company agreed to participate in a private placement by NSGC, the company that holds the underlying lease on Kinsley. Through the private placement, the Company agreed to purchase 6,250,000 units of NSGC at a price of C$0.12 per unit. Each unit issued to Pilot Gold consists of one common share of NSGC (an "NSGC Share") and one half of one NSGC Share purchase warrant. Each whole warrant entitles the holder to purchase an additional NSGC Share at an exercise price of C$0.20 for a period of 24 months from the date of issuance. The private placement in NSGC closed on March 23, 2012. On closing, Pilot Gold determined the fair value of each NSGC Share (C$0.20) to be the Company's deemed cost. Accordingly, on recognition the Company recorded a fair value adjustment resulting in a gain of $0.50 million in the Statement of Loss.

   At December 31, 2012 the fair value of each NSGC Share was C$0.11. The Company determined the change in fair value to be significant as compared to deemed cost. This significant decline was concluded to be an objective indicator of impairment, resulting in the recognition in the Statement of Loss of the aggregate fair value losses to date of $561,000 previously recognised in Other Comprehensive Income.

11. OTHER FINANCIAL ASSETS (continued)

b) On June 6, 2012, GRCL underwent a 20:1 share consolidation decreasing the number of GRCL shares held by the Company to 250,000. On June 27, 2012 an agreement was signed between the Company and GRCL whereby GRCL's requirement to incur a minimum expenditures of $500,000 to earn-in to 60% of the Yunt Dag property was extended to December 31, 2012, in consideration for an additional 100,000 shares (Note 9g).

c) On July 18, 2012, Rae-Wallace agreed to extend the term of the 1,000,000 share purchase warrants held by Pilot Gold by 24 months from the date that Rae-Wallace completes a Transaction, issued an additional 1,985,100 shares to Pilot Gold, and agreed to issue additional shares and warrants concurrent with completing a Transaction (Note 9e). As a result of this agreement, Pilot Gold holds 3,985,100 Rae-Wallace shares, representing 15.8% of Rae-Wallace's current issued and outstanding capital, or 19.0% calculated on a partially-diluted basis.

Pursuant to continuity of interest accounting, Pilot Gold recognised the 2,000,000 common shares of Rae-Wallace acquired upon closing of the Fronteer Arrangement at $0.19. As at December 31, 2012 the fair value of each common share in Rae-Wallace was determined to be $0.10. This significant decline in fair value over deemed cost was concluded to be an objective indicator of impairment, and has resulted in recognition to the Statement of Loss of the fair value losses to date of $166,419, previously recorded to Other Comprehensive Income.

12. INVESTMENT IN ASSOCIATES

Turkey
Pilot Gold owns 40% of Halilağa through a 40% ownership stake in Truva Bakır, a Turkish company, controlled (60%) by TMST, an indirect subsidiary of Teck. Pilot Gold also holds a 40% interest in Orta Truva, a Turkish company that holds TV Tower. Pilot Gold became the operator on TV Tower on June 20, 2012 and has an option to acquire an additional 20% interest of Orta Truva (Note 7). Orta Truva is also controlled (60%) by TMST.

United States
Gold Springs LLC ("Gold Springs"), an entity established to hold the Gold Springs 2 property after High Desert Gold Corporation ("HDG") earned in to an initial 60% interest in 2011. HDG are the operators of the Gold Springs property. Effective May 31, 2012, the Company elected to cease participation in the 2012 program at Gold Springs, resulting in an immediate dilution to 29% of the Company's interest in Gold Springs, as per the terms of the related operating agreement. The resultant dilution loss of $445,095 was offset by the increase in the value of the investment due to capital increases by HDG (Note 23).

The conveyance of each company's respective interests into Gold Springs, was completed by December 4, 2012.

All three 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.

(Expressed in United States Dollars, unless otherwise noted)

12. INVESTMENT IN ASSOCIATES (continued)

	Truva Bakır	Orta Truva	Gold Springs	Total
At January 1, 2011	$ 2,343,516	$ 743,813	$ -	$ 3,087,329
Value on recognition	-	-	98,981	98,981
Share of income	6,846	8,135	(10,219)	4,762
Funding	2,354,290	2,059,537	611,035	5,024,862
Exchange differences	(19,901)	(149,427)	-	(169,328)
At December 31, 2011	$ 4,684,751	$ 2,662,058	$ 699,797	$ 8,046,606
Share of loss	(16,012)	(39,123)	(40,683)	(95,818)
Funding	1,633,088	1,888,426	286,236	3,807,750
Exchange differences	110,251	57,990	-	168,241
Loss on dilution	-	-	(445,095)	(445,095)
Gain from capital	-	-	445,094	445,094
At December 31, 2012	$ 6,412,078	$ 4,569,351	$ 945,349	$ 11,926,778

Funding to Truva Bakır for the year ended December 31, 2012 includes 40% of Eligible Expenditures of which $146,500 are management fees (2011: $nil).

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

Name	Jurisdiction	Assets	Liabilities	Loss	Interest held
Truva Bakır	Turkey	$ 6,439,855	$ (27,777)	$ (16,012)	40%
Orta Truva	Turkey	4,699,111	(129,760)	(39,123)	40%
Gold Springs	United States	949,539	(4,190)	(40,683)	29%
December 31, 2012		**$ 12,088,505**	**$ (161,727)**	**$ (95,818)**	

As at December 31, 2012, the Company has outstanding receivables from Truva Bakır of $13,047, and from Orta Truva of $4,252,316 of which $1,700,926 is attributable to the investment in associate and the remaining $2,551,389 is attributable to the Earn-in Option asset.

13. ACCOUNTS PAYABLE AND OTHER LIABILITIES

	December 31, 2012	December 31, 2011
Trade payables	$ 350,057	$ 336,240
Other payables	41,324	85,832
Accrued liabilities	819,922	245,926
Amounts due to Gold Springs LLC	-	104,754
Amounts due to Orta Truva	-	155,715
Amounts due to Truva Bakır	47,062	71,035
	$ 1,258,365	$ 999,502

Trade payables and accrued liabilities are non-interest bearing and are normally settled on 30-day terms. Amounts due to Truva Bakır, 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. Accrued liabilities include amounts payable to employees and service providers of the Company in respect of the 2012 bonus paid in 2013.

(Expressed in United States Dollars, unless otherwise noted)

14. 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 2012 of 25% (2011 – 26.5%)

	December 31, 2012	December 31, 2011
Loss before taxes	$ (8,071,738)	$ (11,790,945)
Statutory tax rate	25.00%	26.50%
Expected income tax recovery	(2,017,935)	(3,124,601)
Permanent differences	95,885	1,550,210
Benefit not recognized and other	1,869,513	1,624,376
Income tax expense (recovery)	**$ (52,537)**	$ 49,985

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, 2012	December 31, 2011
Mineral properties	$ -	$ (52,536)
Total deferred tax liability	**$ -**	$ (52,536)

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, 2012:

	December 31, 2012	December 31, 2011
Deferred tax assets (liabilities):		
Operating losses carried forward	$ 6,426,616	$ 2,726,789
Equipment	85,376	56,024
Mineral properties	(3,171,607)	(1,531,653)
Investments and other	709,279	355,059
Net unrecognized tax benefit	**$ 4,049,664**	$ 1,606,219

d) The Company has non capital losses which may be applied to reduce future taxable income. These losses expire between 2031 and 2032:

Canada	US	Total
$5,945,000	$13,443,000	$19,388,000

There are no income taxes owed by Pilot Gold at December 31, 2012

15. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) Authorized

Unlimited Common Shares with no par value

b) Issued

As at December 31, 2012 the Company has 85,210,333 Common Shares issued and outstanding. During the year ended December 31, 2012 the Company issued a total of 3,400,000 Common Shares in relation to mineral property interests, including 75,000 in connection with the acquisition of the Kinsley Option (Note 9a), 50,000 as partial consideration for the acquisition of Gold Bug (Note 9d) and 3,275,000 as initial share consideration under the TV Tower Agreement (Note 7).

On November 1, 2012, the Company closed a bought deal short form prospectus offering (the "2012 Bought-Deal"), pursuant to which Pilot Gold issued 17,825,000 units of the Company (the "PLG Units") at a price of C$1.65 per Unit to raise aggregate gross proceeds of C$29,411,250 ($29,490,875). Each PLG Unit consists of one Common Share and one half of one Common Share purchase warrant (each whole common share purchase warrant, a "Share Purchase Warrant"). Each Share Purchase Warrant entitles the holder to acquire one Common Share at a price of C$2.20 until October 31, 2014. The Share Purchase Warrants are listed on the TSX under the symbol "PLG.WT". The Company paid the Underwriters C$1,470,563 ($1,474,533), representing a fee equal to 5.0% of the gross proceeds (the "Underwriters' Fee").

Concurrent private placements with subsidiaries of Teck and Newmont (the "Teck Subscription", and the "Newmont Subscription" respectively, and together with the 2012 Bought-Deal, the "2012 Offering") also closed on November 1, 2012. Pursuant to the TV Tower Agreement and the Arrangement Agreement, through which each of Teck and Newmont respectively hold participation rights to subscribe for and purchase (directly or through an affiliate) additional Pilot Gold Securities (as defined in those agreements) at the same price and on the same terms at which such Additional Pilot Gold Securities are offered for sale to other purchasers, up to the lesser of each of Teck and Newmont's then pro rata interest. To maintain their respective pro rata interest, 3,669,482 Units on the same terms as those issued under the 2012 Bought-Deal were issued pursuant to the Newmont Subscription, and 1,230,565 Units on the same terms as those issued under the 2012 Bought-Deal were issued pursuant to the Teck Subscription. The Teck Subscription and Newmont Subscription raised an additional aggregate gross proceeds of C$8,085,078 ($8,106,966). Units purchased by Newmont and TMST are subject to a four-month statutory hold period.

In addition to the Underwriters' Fee, the Company paid share issuance costs of $460,860 in connection with the Bought Deal and private placements.

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 ("Options") in such numbers and for such terms as may be determined by the Board.

The number of Common 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.

Options granted under the Plan to date are exercisable over periods of five or ten years. In accordance with the Plan, the exercise price of each Option shall under 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. Any consideration paid by the optionee on the exercise of Options is credited to share capital.

(Expressed in United States Dollars, unless otherwise noted)

15. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

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

	Shares	Weighted Average Exercise Price
	#	C$
Balance, January 1, 2011	-	-
Options granted	4,027,500	3.35
Options forfeit	-	-
Balance, December 31, 2011	4,027,500	3.35
Options granted	1,823,500	1.32
Options forfeit	(310,000)	2.17
Balance, December 31, 2012	**5,541,000**	**2.75**

At December 31, 2012, 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$1.00 to C$1.99	1,598,500	5.19	1.13	425,000	1.08
C$2.00 to C$2.99	290,000	9.20	2.81	30,000	2.54
C$3.00 to C$3.99	3,652,500	8.28	3.45	2,384,167	3.45
	5,541,000	**7.43**	**2.75**	**2,839,167**	**3.09**

Stock-based compensation:

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.

The weighted average fair value of Options granted during the period determined using Black-Scholes was C$0.64 per option (2011: C$2.32). The weighted average significant inputs into the model were share price of C$1.06 (2011: C$3.35) at the grant date, exercise price shown above, volatility of 80.9% (2011: 81.4%), dividend yield of 0% (2011: 0%), an expected Option life of 5 years (2011: 5.7 years) and an annual risk-free interest rate of 1.26% (2011: 2.75%). A 2.77% forfeiture rate is applied to the Option expense.

For the year ended December 31, 2012, the Company has capitalized a total of $236,611 (December 31, 2011 - $287,553) of stock-based compensation to exploration properties and deferred exploration expenditures. For the year ended December 31, 2012, the Company charged a total of $1,951,752 of stock-based compensation expense to the statement of loss, of which $233,930 is attributed to property investigation.

Total stock based compensation expense for the year ended December 31, 2011 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.

(Expressed in United States Dollars, unless otherwise noted)

15. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

c) Warrants:

During the year ended December 31, 2012 the Company issued 3,000,000 Teck Warrants as part of the TV Tower Agreement (Note 7), and 11,362,524 Share Purchase Warrants pursuant to the 2012 Offering (together "Warrants"), each entitling the holders to purchase one Common Share for each Warrant held.

	Number of Warrants	Weighted Average Exercise Price
	#	C$
Balance, December 31, 2011	-	-
Warrants issued	14,362,524	2.37
Warrants exercised	-	-
Warrants expired	-	-
Balance, December 31, 2012	**14,362,524**	**2.37**

As at December 31, 2012 the Company had the following Warrants outstanding:

Range of prices	Number of Warrants outstanding	Weighted average remaining contractual life	Weighted average exercise price	Number of Warrants exercisable	Weighted average exercise price of Warrants exercisable
	#	(in years)	C$	#	C$
C$2.00 to C$2.99	11,362,524	1.84	2.20	11,362,524	2.20
C$3.00 to C$3.99	3,000,000	2.47	3.00	3,000,000	3.00
	14,362,524	**1.97**	**2.37**	**14,362,524**	**2.37**

The weighted average fair value Warrants granted during the period determined using Black-Scholes was C$0.36 per option (2011: C$nil). The weighted average significant inputs into the model were share price of C$1.54 at the grant date, exercise price shown above, volatility of 61%, dividend yield of 0%, an expected life of 2.21 years and annual risk-free interest rate of 1.08%.

(Expressed in United States Dollars, unless otherwise noted)

16. PROPERTY INVESTIGATION EXPENSE

	December 31, 2012	December 31, 2011
Stock-based compensation	$ 233,930	$ 431,187
Salaries and benefits	179,754	472,136
Professional fees	44,158	206,362
Transportation	29,092	120,233
Other	20,904	52,689
Contract labour	15,059	9,133
Consultants	14,222	101,965
Geochemistry	8,060	131,937
Meals and accommodation	8,481	80,466
Leasing	4,244	56,345
Due diligence	-	44,968
	$ 557,904	$ 1,707,421

17. CAPITAL DISCLOSURES

Pilot Gold considers the items included in the consolidated statement of shareholders' 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.

18. FINANCIAL RISK MANAGEMENT

Financial Risk Management
The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board 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 AA 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.

18. 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 Bakır, 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. A 1% increase or decrease in the exchange rate of the US dollar against the Canadian dollar would result in a $369,184 increase or decrease respectively, in the Company's cash and short term investment balance. 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.

19. COMMITMENTS

TV Tower
As described in Note 7 of these consolidated financial statements, the Company has committed to incur $5 million of TV Tower Expenditure Requirement before June 20, 2013. A penalty cash payment, in addition to the outstanding obligation to incur the minimum of Eligible Expenditures of the first year, will be levied if the Company fails to incur $5 million in Eligible Expenditures prior to June 20, 2013. As at December 31, 2012 the outstanding first-year commitment is $229,632 (Note 23).

Pursuant to the TV Tower Agreement, further to completion of all other conditions precedent (Note 7), the Company must make a one-time cash payment to TMST, equal to $20 per ounce of gold, applicable on 20% on the gold ounces delineated at TV Tower in excess of 750,000 ounces defined as compliant 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 (the "Additional Consideration"). It is not possible at this time to estimate the amount of Additional Consideration payable.

See details in Note 7 for share issuances and expenditures to be met in order to maintain the Earn-in Option in good standing.

(Expressed in United States Dollars, unless otherwise noted)

19. COMMITMENTS (continued)

Gold Bug

On August 31, 2012 the Company signed an amended lease agreement with Nevada Eagle Resources LLC, a subsidiary of Newmont, whereby Pilot Gold shall make expenditures of $3,000,000 in accordance with the following schedule ("Gold Bug Expenditure") in order to maintain the amended lease agreement in good standing:

On or before the 1st anniversary of the signing date	$ 150,000
On or before the 2nd anniversary, an additional	$ 350,000
On or before the 3rd anniversary, an additional	$ 400,000 (optional)
On or before the 4th anniversary, an additional	$ 500,000 (optional)
On or before the 5th anniversary, an additional	$ 700,000 (optional)
On or before the 6th anniversary, an additional	$ 900,000 (optional)

The initial $500,000 is a committed expenditure to be settled in cash if it is not met. As at December 31, 2012 the Company had incurred $31,615 in Gold Bug Expenditures.

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. Beginning August 1, 2012, the lease for office premises in Canada was assigned to Oxygen (Notes 8 and 22). Upon termination of the Oxygen Agreement, the Company is required to indemnify Oxygen for costs associated with those agreements or obligations which had been executed or incurred by Oxygen in connection with or related to the services provided to the Company by Oxygen, these amounts 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 year ended December 31, 2012 is $271,077.

Total future minimum lease payments, under non-cancellable operating leases as at December 31, 2012 are as follows:

Year	
2013	$ 324,086
2014	286,962
2015	164,328
2016+	490,179
	$ 1,265,555

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

20. SEGMENT INFORMATION

The Company's operations are in one segment, the exploration for gold, copper and other precious and base metals. At December 31, 2012 and 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 9.

For the year ended December 31, 2012 the net loss relating to the operations in Canada, and the United States totalled $5,311,231 and $2,787,802 respectively, while a net gain of $79,831 was recognised in Turkey (2011 losses of: $8,790,644 $1,433,272 and $1,617,014) respectively.

(Expressed in United States Dollars, unless otherwise noted)

20. SEGMENT INFORMATION (continued)

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

	December 31, 2012	December 31, 2011
Canada	$ 182,381	$ 234,662
USA	58,185	466,492
Turkey	382,364	12,870
	$ 622,930	$ 714,024

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

21. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing transactions:

	December 31, 2012	December 31, 2011
Net change in non-cash working capital items and other		
Write (up) down of VAT receivable	$ (310,874)	$ 290,111
Deferred tax payable	(52,536)	49,986
	$ (363,410)	$ 340,097
Non-cash financing and investing transactions		
Issuance of shares and warrants for Earn-in Option (Notes 7 and 15)	$ (4,213,079)	$ -
Issuance of shares for Kinsley Option (Notes 9a and 15)	(101,882)	(100,140)
Issuance of shares for Gold Bug (Notes 9d and 15)	(46,243)	-
Recovery against mineral properties (non cash)	198,510	50,835
Continuity of interest gain	-	55,441,050
Change in fair value of financial instruments	(67,057)	55,794
	$ (4,229,751)	$55,447,539

22. RELATED PARTY TRANSACTIONS

Transactions with related parties for goods and services are made on normal commercial terms and are considered to be at arm's length. In addition to the following, the Company's related parties include its subsidiaries, and associates over which it exercises significant influence (note 12).

Oxygen Capital Corp
Oxygen is a private company owned by three directors of the Company. Oxygen provides services to the Company at cost including staffing, office rental and other administrative functions. Related party transactions during the period total $433,841 in expenditures and $91,762 in deferred exploration expenditures relating to mineral properties, reflected in the Company's consolidated statement of loss and comprehensive loss and statement of financial position respectively. As at December 31, 2012, the Company held a receivable and payable from and to Oxygen of $15,850 and $81,620 respectively, in addition to the deposit described in Note 8. Amounts receivable and payable were settled subsequent to year end.

(Expressed in United States Dollars, unless otherwise noted)

22. RELATED PARTY TRANSACTIONS (continued)

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 directly or via Oxygen is shown below:

	December 31, 2012	December 31, 2011
Salaries and other short-term employee benefits	$ 1,037,718	$ 891,135
Share-based payments	1,283,996	5,366,679
Total	**$ 2,321,714**	**$ 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. The Company subsequently entered into employment relationships with its key management employees.

Members of the Board receive director's fees on a quarterly basis; no fees were paid to those members of the Board for their services as directors through March 31, 2011.

23. SUBSEQUENT EVENTS

Regent mineral property
Pilot Gold announced on January 10, 2013 that it had signed and closed a definitive purchase agreement (the "Regent Agreement") to sell 100% of the Regent exploration property to Rawhide for $3 million in cash. $2 million of the cash payment was received by the Company on January 8, 2012. The remaining $1 million is due from Rawhide on June 8, 2013. Pursuant to the Regent Agreement, Pilot Gold will retain a net profits royalty of 15% on production from Regent and is entitled to a sliding scale gold equivalent bonus payment, each of which is payable in certain circumstances after RMC has achieved production at Regent.

Kinsley Mountain mineral property
On February 8, 2013, the Company notified NSGC that it has met the minimum $3 million exploration spend requirement on Kinsley and had thus earned a 65% interest in the leased and contiguous property. Once the formal transfer of the property into Kinsley Gold LLC is completed, the Company will account for NSGC's 35% share as a non-controlling interest.

Gold Springs dilution
On January 25, 2013 the Company notified HDG that it would not be participating in the 2013 program and budget on the Gold Springs 2 project, resulting in an immediate dilution of approximately 10% of the Company's interest in Gold Springs, as per the terms of the related operating agreement. As the Company's resulting investment in Gold Springs is 18%, it is subsequently no longer deemed to have significant influence over the investment, pursuant to which Gold Springs will no longer be accounted for using the equity method, and will be recognised as an investment measured at fair value.

Option grant
On February 5, 2013 the Company granted, under the terms of the Pilot Gold Stock Option Plan, 425,000 Options to directors of the Company and 1,140,000 Options to employees and service providers of the Company, with an exercise price of C$2.13. Director's Options vest immediately and employee options vest in thirds over three years, both expire after 5 years.

(Expressed in United States Dollars, unless otherwise noted)

23. SUBSEQUENT EVENTS (continued)

TV-Tower Commitment

On March 18, 2013 the Company notified TMST that it had incurred $5 million in Eligible Expenditures, satisfying the first year minimum committed amount of the TV Tower Expenditure Requirement. The Corporation concurrently elected to maintain its right to continue to earn-in to the additional 20% interest in Orta Truva. In satisfaction of the first anniversary share issuance requirement, the Corporation issued 1,637,500 Common Shares to TMST on March 19, 2013

Lease Commitment

As of February 19, 2013, Oxygen entered into a lease agreement for new office premises for which the Company is committed to paying a percentage of the costs pursuant to the Management Agreement. The Company's incremental share of total future lease payments for the new premises under current agreed percentages is as follows:

Year	
2013	$ 42,373
2014	83,592
2015	80,848
2016+	1,738,516
	$ 1,945,329

The percentage allocated to the Company by Oxygen, is subject to change.