Pilotgold

An exploration stage company

# Condensed Interim Consolidated Financial Statements

(Expressed in US Dollars - unaudited)
Nine months ended September 30, 2012

**PILOT GOLD INC.**
**INTERIM CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE THIRD QUARTER ENDED SEPTEMBER 30, 2012**

## NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3 (3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by, and are the responsibility of, the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an auditor.

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

| | As at September 30, 2012 | As at December 31, 2011 |
|---|---|---|
| | $ | $ |
| **Assets** | | |
| *Current assets* | | |
| Cash | 7,029,514 | 7,391,497 |
| Short term investments | 121,162 | 11,028,857 |
| Receivables (Note 5) | 563,280 | 309,295 |
| Prepayments | 311,182 | 165,863 |
| Total current assets | 8,025,138 | 18,895,512 |
| *Non-current assets* | | |
| Earn-in option (Note 4) | 5,055,717 | - |
| Deposits (Note 6) | 243,064 | - |
| Exploration properties and deferred exploration expenditures (Note 7) | 12,812,160 | 9,129,967 |
| Plant and equipment (Note 8) | 655,833 | 714,024 |
| Reclamation deposits | 250,439 | 250,283 |
| Other financial assets (Note 9) | 996,415 | 456,870 |
| Investment in associates (Note 10) | 10,520,984 | 8,046,606 |
| Total non-current assets | 30,534,612 | 18,597,750 |
| **Total assets** | 38,559,750 | 37,493,262 |
| **Liabilities and Shareholders' Equity** | | |
| *Current liabilities* | | |
| Accounts payable and other liabilities (Note 11) | 907,015 | 999,502 |
| Decommissioning liability | 30,000 | 50,484 |
| Total current liabilities | 937,015 | 1,049,986 |
| *Non-current liabilities* | | |
| Deferred tax liabilities | - | 52,536 |
| Other liabilities | 30,656 | 21,137 |
| Total non-current liabilities | 30,656 | 73,673 |
| *Shareholders' equity* | | |
| Share capital (Note 12) | 95,838,109 | 92,123,392 |
| Warrants issued (Note 12) | 546,713 | - |
| Contributed surplus (Note 12) | 8,388,142 | 6,599,039 |
| Accumulated other comprehensive loss | (1,519,133) | (1,349,229) |
| Accumulated deficit | (65,661,752) | (61,003,599) |
| Total shareholders' equity | 37,592,079 | 36,369,603 |
| **Total liabilities and shareholders' equity** | 38,559,750 | 37,493,262 |

The notes on pages 5 to 21 are an integral part of these condensed interim consolidated financial statements.

These financial statements are approved by the board and authorised for issue on November 8, 2012:

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

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | $ | $ | $ | $ |
| Operating expenses | | | | |
| Stock based compensation (Note 12) | 334,598 | 473,077 | 1,365,371 | 5,335,155 |
| Wages and benefits | 412,440 | 298,682 | 1,313,169 | 908,401 |
| Office and general | 369,380 | 366,491 | 1,156,974 | 867,667 |
| Property investigation (Note 13) | 117,343 | 778,726 | 495,007 | 1,147,854 |
| Investor relations, promotion and advertising | 90,352 | 100,373 | 353,654 | 190,625 |
| Professional fees | 93,501 | 59,709 | 270,352 | 320,714 |
| Depreciation | 57,002 | 99,880 | 162,424 | 321,286 |
| Listing and filing fees | 8,564 | 25,009 | 63,054 | 302,225 |
| Write down of mineral property interest (Note 7f) | 538,207 | - | 538,207 | 137,984 |
| Loss on disposal of plant and equipment (Note 8) | 32,467 | 95,105 | 29,027 | 115,217 |
| Loss from operations | 2,053,854 | 2,297,052 | 5,747,239 | 9,647,128 |
| Other income (expenses) | | | | |
| Change in fair value of financial instruments (Note 9) | (120,093) | (18,254) | 556,190 | (32,275) |
| Foreign exchange gains (losses) | (79,182) | 142,169 | 31,842 | 183,796 |
| Finance income | 27,342 | 90,471 | 136,028 | 136,270 |
| Other income (expenses) net (Note 5) | 425,754 | (317,275) | 352,459 | (340,065) |
| Income (loss) from associates (Note 10) | (14,311) | 6,461 | (39,969) | 6,770 |
| | 239,510 | (96,428) | 1,036,550 | (45,504) |
| Loss before tax | 1,814,344 | 2,393,480 | 4,710,689 | 9,692,632 |
| Income tax recovery (expense) | - | 335,860 | 52,536 | (48,878) |
| **Loss for the period** | 1,814,344 | 2,057,620 | 4,658,153 | 9,741,510 |
| **Other comprehensive (loss) income** | | | | |
| Exchange differences on translating foreign operations | 808,505 | (2,373,045) | 813,646 | (2,079,757) |
| Net fair value loss on financial assets (Note 9) | (322,026) | (48,568) | (983,550) | (82,151) |
| Other comprehensive income (loss) for the period, net of tax | 486,479 | (2,421,613) | (169,904) | (2,161,908) |
| **Total loss and comprehensive loss for the period** | 1,327,865 | 4,479,233 | 4,828,057 | 11,903,418 |
| **Loss per share** | | | | |
| Basic and diluted | $ 0.03 | $ 0.03 | $ 0.08 | $ 0.18 |
| Common shares | | | | |
| Basic and diluted (Note 12) | 62,463,003 | 59,040,152 | 60,370,359 | 54,012,405 |

The notes on pages 5 to 21 are an integral part of these condensed interim consolidated financial statements.

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

| | Number of Common Shares[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 | - | - | - | - | (250,930) | - | (250,930) |
| Exchange on unrealized loss on long-term investments | - | - | - | - | 168,779 | - | 168,779 |
| Shares issued as a result of financing | 8,333,334 | 25,810,450 | - | - | - | - | 25,810,450 |
| Share issue costs | - | (1,663,474) | - | - | - | - | (1,663,474) |
| Shares issued as consideration for option on mineral property | 50,000 | 100,140 | - | - | - | - | 100,140 |
| Cumulative translation adjustment | - | - | - | - | (2,079,757) | - | (2,079,757) |
| Stock based compensation | - | - | - | 5,845,879 | - | - | 5,845,879 |
| Net loss for the period | - | - | - | - | - | (9,741,510) | (9,741,510) |
| Balance as at September 30, 2011 | 59,085,286 | 92,095,886 | - | 5,845,879 | (1,931,587) | (58,904,179) | 37,105,999 |
| Balance as at January 1, 2012 | 59,085,286 | 92,123,392 | - | 6,599,039 | (1,349,229) | (61,003,599) | 36,369,603 |
| Stock based compensation (Note 12) | - | - | - | 1,789,103 | - | - | 1,789,103 |
| Unrealized loss on long-term investments | - | - | - | - | (685,453) | - | (685,453) |
| Exchange on unrealized loss on long-term investments | - | - | - | - | (298,097) | - | (298,097) |
| Shares issued as consideration for mineral property rights (Notes 7 and 12) | 3,400,000 | 3,719,758 | - | - | - | - | 3,719,758 |
| Share issue costs | - | (5,041) | - | - | - | - | (5,041) |
| Warrants issued (Notes 4 and 12) | - | - | 546,713 | - | - | - | 546,713 |
| Cumulative translation adjustment | - | - | - | - | 813,646 | - | 813,646 |
| Net loss for the period | - | - | - | - | - | (4,658,153) | (4,658,153) |
| Balance as at September 30, 2012 | 62,485,286 | 95,838,109 | 546,713 | 8,388,142 | (1,519,133) | (65,661,752) | 37,592,079 |

[1] On April 4th 2011, pursuant to the Fronteer Arrangement (Note 2), the number of the Company's 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 21 are an integral part of these condensed interim consolidated financial statements.

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

| | Nine months ended September 30 | |
|---|---|---|
| | 2012 | 2011 |
| | $ | $ |
| **Cash flows from operating activities** | | |
| Loss for the period | (4,658,153) | (9,741,510) |
| Adjusted for: | | |
| Stock based compensation | 1,569,735 | 5,617,315 |
| Depreciation | 162,424 | 321,286 |
| Write-down of deferred exploration expenditures (Note 7f) | 538,207 | 137,984 |
| Loss on disposal of property and equipment | 29,027 | 115,217 |
| Write down (up) of VAT recoverable (Note 5) | (310,494) | 290,110 |
| Change in fair value of financial instruments | (556,190) | 32,275 |
| Foreign exchange not related to cash | - | (183,796) |
| Non-cash other income | (88,207) | (23,821) |
| Change in provision | 9,519 | - |
| Loss (gain) from associates | 39,969 | (6,770) |
| Interest income on short term investments | (58,753) | - |
| Deferred income taxes | (52,536) | 48,878 |
| Loss on dilution of associate | 88,729 | - |
| Movements in working capital: | | |
| Accounts receivable and prepayments | (4,746) | (29,159) |
| Accounts payable and other liabilities | (76,582) | 289,961 |
| Cash deposit to Oxygen Capital Corp. (Note 6) | (243,064) | - |
| Net cash outflow due to operating activities | (3,611,115) | (3,132,030) |
| **Cash flows from financing activities** | | |
| Funding received from Fronteer for operations | - | 1,176,472 |
| Cash received from financing | - | 25,810,450 |
| Share issue costs | (5,041) | (1,663,474) |
| Cash received pursuant to the Fronteer Arrangement | - | 9,819,540 |
| Cash (used in) generated by financing activities | (5,041) | 35,142,988 |
| **Cash flows from investing activities** | | |
| Change in working capital attributable to deferred exploration expenditures | (96,381) | 345,491 |
| Maturity of short term investments | 11,048,334 | - |
| Acquistion of financial assets | (751,350) | (10,548,827) |
| Purchase of property and equipment | (129,330) | (171,632) |
| Proceeds from sale of equipment | 3,440 | 5,321 |
| Funding to Associates | (2,513,902) | (2,578,599) |
| Acquistion of mineral property | (98,790) | (350,000) |
| Expenditures towards option to earn-in | (596,433) | - |
| Interest in exploration properties and deferred exploration expenditures | (3,895,001) | (4,494,573) |
| Recoveries on mineral properties | 26,126 | 140,000 |
| Purchase of reclamation deposits | - | (250,000) |
| Net cash inflow (outflow) due to investing activities | 2,996,713 | (17,902,819) |
| Effect of foreign exchange rates | 257,460 | (1,901,504) |
| Net increase (decrease) in cash and cash equivalents | (361,983) | 12,206,635 |
| Cash at beginning of period | 7,391,497 | 86,966 |
| Cash at end of the period | 7,029,514 | 12,293,601 |

See Note 16 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 strong 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.

The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The continued operations of the Company and the recoverability of the amounts capitalized for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of such properties and upon future profitable production or proceeds from the disposition of the properties.

## 2. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements for the nine months ended September 30, 2012 have been prepared in accordance with IAS 34, 'Interim financial reporting', using accounting policies consistent with those used in the Company's annual consolidated financial statements for the year ended December 31, 2011 (the "Annual Financial Statements"). The condensed interim consolidated financial information should be read in conjunction with the Annual Financial Statements for the year ended December 31, 2011, which have been prepared in accordance with *International Financial Reporting Standards* ("IFRS") as issued by the *International Accounting Standards Board (*"IASB").

*Continuity of interest*

As described in detail in our Annual Financial Statements, Pilot Gold ceased to be a wholly owned subsidiary of Fronteer Gold Inc. ("Fronteer") on April 6, 2011, through an arrangement agreement between Fronteer and Newmont Mining Corporation ("Newmont"), pursuant to which Newmont acquired all the outstanding common shares of Fronteer by way of a plan of arrangement (the "Fronteer Arrangement"). The effective date of the Fronteer Arrangement was determined to be March 30, 2011 (the "Effective Date"). Assets, liabilities, operations and cash flows of the Pilot Gold's business through March 30, 2011 have been accounted for as if the Company had operated independently of Fronteer through to the Effective Date in accordance with the continuity of interest basis of accounting. 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.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

In preparing these condensed interim consolidated financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied in the Annual Financial Statements.

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

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

On June 20, 2012 ("TV Tower Effective Date"), Teck Resources Limited ("Teck"), Teck Madencilik Sanayi Ticaret A.Ş ("TMST"), Pilot Gold and certain of its subsidiaries signed a joint venture and earn-in agreement ("TV Tower Agreement") that will, further to the Company meeting several conditions precedent, see shares equal to a 20% interest in Orta Truva Madencilik Şanayi ve Ticaret A.Ş ("Orta Truva") 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.

The consideration paid in order to acquire the right to earn-in to the additional 20% interest consists of 3,275,000 common shares of Pilot Gold ("Common Shares") and 3,000,000 Common Share purchase warrants ("Pilot Warrants") to TMST. Each Pilot 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. In addition, a further 1,637,500 Common Shares will be issued on each of the first and second anniversaries of the date the TV Tower Agreement was signed, should Pilot Gold elect to continue with the earn-in.

In order to earn-in to the additional 20% interest, the Company must incur $21 million in exploration expenditures at TV Tower ("Expenditures") over three years, as follows:

- $5 million in the twelve months from the TV Tower Effective Date;
- $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 total value of the Earn-in option as at September 30, 2012 of $5,055,717 consists of Common Shares and Pilot Warrants of C$4,191,701 ($4,261,283 at period end rates), $149,273 of capitalised legal costs relating to the transaction and $645,161 relating to Expenditures.

The aggregate Expenditure of $5 million in the first year is a committed amount to TMST subject to penalty (Note 14). 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.

## 5. RECEIVABLES

| | **September 30 2012** | **December 31 2011** |
|---|---|---|
| VAT receivable | $ 388,933 | **$ -** |
| GST Receivable | 56,213 | 100,555 |
| Other Receivables | 118,134 | 208,740 |
| | **$ 563,280** | **$ 309,295** |

In previous periods the Company has written down a VAT receivable held in our Turkish subsidiary after assessing it to be not recoverable. The Company's activity in the Turkish region has resulted in a change in management's assessment on the recoverability of the VAT resulting in a write up to the statement of comprehensive income of $310,494 recorded in other income.

## 6. 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 $243,064 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 17.

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

## 7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

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

| | **Total January 1, 2012** | Additions/ Allocations | Recovery from third party | Write-down and disposal of asset | **Total September 30, 2012** |
|---|---|---|---|---|---|
| | **$** | $ | $ | $ | **$** |
| **USA** | | | | | |
| Kinsley Mountain (Note 7a) | **1,133,509** | 3,305,760 | - | - | **4,439,269** |
| Griffon (Note 7b) | **2,772** | 362,799 | - | - | **365,571** |
| Gold Bug (Note 7c) | - | 124,812 | - | - | **124,812** |
| Regent | **3,712,065** | 224,897 | - | - | **3,936,962** |
| New Boston | **1,228,439** | 38,291 | - | - | **1,266,730** |
| Easter (Note 7e) | **135,711** | 26,960 | (25,000) | - | **137,671** |
| Brik | **715,986** | 26,919 | - | - | **742,905** |
| Viper | **988,422** | 24,803 | - | - | **1,013,225** |
| Baxter Springs (Note 7f) | **271,295** | 12,737 | - | (284,032) | - |
| Stateline | **220,853** | 30,500 | - | - | **251,353** |
| Cold Springs (Note 7f) | **199,916** | 5,485 | - | (205,401) | - |
| Anchor | **183,998** | 11,635 | - | - | **195,633** |
| Buckskin North | **86,966** | 4,722 | - | - | **91,688** |
| Other (Note 7f) | **71,292** | 84,972 | - | (48,774) | **107,490** |
| Total USA | **8,951,224** | 4,285,292 | (25,000) | (538,207) | **12,673,309** |
| **Turkey** | | | | | |
| Arasanli | - | 135,227 | - | - | **135,227** |
| Yunt Dag (Notes 7e and 9b) | **3,624** | 1,126 | (1,126) | - | **3,624** |
| Total Turkey | **3,624** | 136,353 | (1,126) | - | **138,851** |
| **Peru** | | | | | |
| Rae Wallace (Notes 7d and 9c) | **175,119** | - | - | (175,119) | - |
| Total | **9,129,967** | 4,421,645 | (26,126) | **(713,326)** | **12,812,160** |

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

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

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- unaudited)

## 7. 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: | | | | | |
| Acquisition costs | 491,709 | - | - | 491,709 | - |
| Drilling | 2,460,484 | - | - | 2,460,484 | - |
| Wages, salaries and stock based compensation | 667,217 | 1,862 | 2,526 | 671,605 | 6,489 |
| Assaying & geochemical | 470,733 | - | - | 470,733 | - |
| Property maintenance | 280,076 | - | - | 280,076 | 27,626 |
| Administrative and other | 218,604 | - | - | 218,604 | 8,479 |
| Geology and geophysics | 227,642 | - | - | 227,642 | - |
| Environmental | 72,880 | - | - | 72,880 | - |
| Camp & field costs | 52,103 | - | - | 52,103 | - |
| Lesases, royalty and option payments | 33,601 | 1,115 | - | 34,716 | 5,576 |
| Write down of assets held for sale | - | - | - | - | (137,984) |
| Sale of Aktarma property | - | - | - | - | (51,487) |
| Transfer to Newmont (Note 1) | - | - | - | - | (27,724) |
| Transfer of asset to Gold Springs LLC | (98,981) | - | - | (98,981) | - |
| Recovery from option holders | (180,000) | (10,835) | - | (190,835) | - |
| Cumulative translation adjustment | 97 | (58) | (6,589) | (6,550) | (20) |
| Held for sale | - | (233,239) | - | (233,239) | 233,239 |
| September 30, 2011 | 7,329,666 | 3,624 | 171,427 | 7,504,717 | 91,918 |
| January 1, 2012 | 8,951,224 | 3,624 | 175,119 | 9,129,967 | - |
| Drilling | 1,599,831 | - | - | 1,599,831 | - |
| Wages, salaries and stock based compensation | 763,664 | 8,474 | - | 772,138 | - |
| Assaying & geochemical | 460,453 | 20,080 | - | 480,533 | - |
| Acquisition costs | 242,484 | 99,916 | - | 342,400 | - |
| Environmental | 338,648 | - | - | 338,648 | - |
| Property maintenance | 323,497 | - | - | 323,497 | - |
| Geology and geophysics | 245,915 | 2,827 | - | 248,742 | - |
| Administrative and other | 109,548 | 4,019 | - | 113,567 | - |
| Camp & field costs | 69,977 | 1,036 | - | 71,013 | - |
| Lesases, royalty and option payments | 78,878 | - | - | 78,878 | - |
| Other | 52,397 | - | - | 52,397 | - |
| Recovery from option holders | (25,000) | (1,125) | - | (26,125) | - |
| Write down of defered exploration expenditures | (538,207) | - | (175,119) | (713,326) | - |
| **September 30, 2012** | **12,673,309** | **138,851** | **-** | **12,812,160** | **-** |

## 7. 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. 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 the company 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 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. Once the formal transfer of the property into Kinsley Gold LLC is completed, the Company will account for NSGC's 49% share as a non-controlling interest.

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 $75,000 per year through 2016, increasing up to $200,000 per year in 2020 and beyond. A maximum 4% net smelter return royalty 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, 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) *Griffon*

Pilot Gold has the option to earn-in to an initial 60%, of the Griffon property by paying Molycor Gold Corp. ("Molycor") a total of $119,636 cash, 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 September 30, 2012 a total of $39,636 cash had been paid to Molycor, and a total of $313,546 in exploration expenditures have been incurred on Griffon. The Griffon Agreement also provides the Company an option to earn additional 10% interest further making additional exploration expenditures prior to the third anniversary following the initial 60% earn-in

c) *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 Mining Corporation ("Newmont") signed on August 31, 2012, the Company has agreed to a $3,000,000 work commitment over 6 years, see Note 14.

## 7. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (continued)

*d) Rae- Wallace*

On July 18, 2012 an agreement was signed between Pilot Gold and Rae Wallace Mining Company ("Rae-Wallace") whereby the Company agreed to terminate its option to acquire a 51% interest in up to two exploration properties owned by Rae Wallace 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). As a result of this agreement, Pilot Gold holds 3,985,100 Rae-Wallace shares (Note 9c), representing 15.8% of Rae-Wallace's current issued and outstanding capital, or 19.0% calculated on a partially-diluted basis.

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

(i) a 2% net smelter royalty 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 15.8% ownership of 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.

*e) Farm-out arrangements*

The Company has granted options to La Quinta Resources Corporation ("La Quinta") and Global Resources Corporation Limited ("GRCL") to earn-in to an interest in the Easter exploration property ("Easter") and the Yunt Dag ("Yunt Dag") exploration property, respectively. GRCL has the option to earn-in to 60% of Yunt Dag over a five year period. The minimum expenditure required of GRCL prior to December 31, 2012 is $500,000 (Note 8b).

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.

*f) Write-downs*

During the three months ended September 30, 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.

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

## 8. 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 | 311,370 | 519,263 | 2,170,486 |
| Additions | 12,506 | 101,407 | 43,269 | 1,712 | 12,738 | 171,632 |
| Disposals and write-downs | (80,690) | (105,927) | (342,618) | (35,323) | (4,963) | (569,521) |
| Cumulative translation adjustment | (812) | (7,884) | 2,726 | (7,533) | (8,356) | (21,859) |
| Balance as at September 30, 2011 | 87,800 | 658,214 | 215,816 | 270,226 | 518,682 | 1,750,738 |
| Balance at January 1, 2012 | 97,528 | 675,163 | 221,399 | 277,157 | 527,728 | 1,798,975 |
| Additions | 4,947 | 80,415 | 41,840 | 11,478 | - | 138,680 |
| Disposals and write-downs | (61,684) | (67,876) | - | (7,351) | - | (136,911) |
| Cumulative translation adjustment | 1,021 | 8,167 | 4,290 | 6,789 | 7,414 | 27,681 |
| **Balance as at September 30, 2012** | **41,812** | **695,869** | **267,529** | **288,073** | **535,142** | **1,828,425** |
| Depreciation: | | | | | | |
| Balance as at January 1, 2011 | 81,917 | 342,699 | 442,932 | 135,632 | 236,418 | 1,239,598 |
| Current period depreciation | 6,800 | 76,977 | 65,823 | 23,675 | 82,758 | 256,033 |
| Disposals and write-downs | (45,135) | (65,652) | (319,457) | (17,665) | (1,072) | (448,981) |
| Cumulative translation adjustment | (729) | (5,362) | 1,206 | (4,220) | (9,043) | (18,148) |
| Balance as at September 30, 2011 | 42,853 | 348,662 | 190,504 | 137,422 | 309,061 | 1,028,502 |
| Balance at January 1, 2012 | 47,071 | 369,050 | 191,461 | 147,316 | 330,053 | 1,084,951 |
| Current period depreciation | 7,980 | 67,818 | 27,620 | 21,968 | 46,192 | 171,578 |
| Disposals and write-downs | (43,863) | (54,820) | - | (5,668) | - | (104,351) |
| Cumulative translation adjustment | 639 | 4,975 | 3,545 | 3,840 | 7,415 | 20,414 |
| **Balance as at September 30, 2012** | **11,827** | **387,023** | **222,626** | **167,456** | **383,660** | **1,172,592** |
| Net Book Value: | | | | | | |
| As at September 30, 2011 | 44,947 | 309,552 | 25,312 | 132,804 | 209,621 | **722,236** |
| As at January 1, 2012 | 50,457 | 306,113 | 29,938 | 129,841 | 197,675 | **714,024** |
| **As at September 30, 2012** | **29,985** | **308,846** | **44,903** | **120,617** | **151,482** | **655,833** |

Equipment consists of automobiles, and automotive equipment, and computer hardware. Furniture and fixtures includes $8,250 of assets under finance lease arrangements.

During the period a total of $32,467 (nine-months ended September 30, 2011 - $106,094) in charges to write off certain items deemed to have reached the end of their useable life are included in operating expenses.

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

## 9. 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 the Black-Scholes option-pricing model that uses inputs that are primarily based on market indicators. Any common shares (equities) held are designated as available-for-sale and any change in fair value is included in other comprehensive income (loss), until such time as the common shares are sold or otherwise disposed of at which time any gains or losses will be included in income (loss) for the period.

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

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

The following table illustrates the classification of Pilot Gold's financial instruments with the fair value hierarchy as at September 30, 2012 and December 31, 2011:

| | 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 September 30, 2012 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Equities (a)(b)(c) | $935,909 | - | - | $935,909 |
| Share purchase warrants (c) | - | 60,506 | | 60,506 |
| | **$935,909** | **$60,506** | **-** | **$996,415** |

a) On March 23, 2012, the Company participated in a private placement by NSGC, the company that holds the underlying lease on Kinsley. Through the offering, 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 and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase an additional common share at an exercise price of $0.20 for a period of 24 months from the date of issuance. As a result the Company holds a 9.9% interest, on a partially diluted basis, in NSGC.

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.

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, and also issued an additional 1,985,100 shares to Pilot Gold, as per the details described in Note 7d.

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

## 10. INVESTMENT IN ASSOCIATES

*Turkey*
Pilot Gold owns 40% of the Halilağa copper-gold porphyry property ("Halilağa") through a 40% ownership stake in Truva Bakir Maden İşletmeleri A.Ş ("Truva Bakir"), 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 4). Orta Truva is also controlled (60%) by TMST.

*United States*
Pilot Gold holds a 30% interest in 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 40% 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 of approximately 10% of the Company's interest in Gold Springs as per the terms of the related operating agreement. A resultant dilution loss of $88,729 has been recognised within other expenditures. If less than 90% of the planned 2012 budget for Gold Springs is expended by year end, the Company can reconsider its contribution to the budget and return to its previous 40% interest in Gold Springs by paying 40% of actual expenditures plus interest.

The conveyance of each company's respective interests into Gold Springs, was outstanding as at September 30, 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.

| | Truva Bakir | Orta Truva | Gold Springs | Total |
|---|---|---|---|---|
| At January 1, 2012 | $ 4,684,751 | $ 2,662,058 | $ 699,797 | $ 8,046,606 |
| Share of loss | (6,109) | (2,600) | (31,260) | (39,969) |
| Funding | 1,311,041 | 720,779 | 303,194 | 2,335,014 |
| Exchange differences | 180,229 | 87,833 | - | 268,062 |
| Loss on dilution | - | - | (88,729) | (88,729) |
| **At September 30, 2012** | **$ 6,169,912** | **$ 3,468,070** | **$ 883,002** | **$ 10,520,984** |

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

| Name | Jurisdiction | Assets | Liabilities | Loss | Interest held |
|---|---|---|---|---|---|
| Truva Bakir | Turkey | $ 6,193,670 | $ (23,759) | $ (6,109) | 40% |
| Orta Truva | Turkey | 3,471,895 | (3,828) | (2,600) | 40% |
| Gold Springs | United States | 1,025,456 | (142,454) | (31,260) | 30% |
| **September 30, 2012** | | **$ 10,691,021** | **$ (170,037)** | **$ (39,969)** | |

As at September 30, 2012, we have outstanding receivables from Orta Truva of $1,324,056 of which $529,622 is attributable to the investment in associate and the remaining $794,433 is attributable to the Earn-in Option asset. A receivable of $28,501 is also outstanding from Truva Bakir as at September 30, 2012.

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

## 11. ACCOUNTS PAYABLE AND OTHER LIABILITIES

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Trade payables | $ 345,462 | $ 336,240 |
| Other payables | 54,687 | 85,832 |
| Accrued liabilities | 506,866 | 245,926 |
| Amounts due to Gold Springs LLC | - | 104,754 |
| Amounts due to Orta Truva | - | 155,715 |
| Amounts due to Truva Bakir | - | 71,035 |
| | **$ 907,015** | **$ 999,502** |

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

## 12. SHARE CAPITAL AND CONTRIBUTED SURPLUS

*a) Authorized*

Unlimited common shares ("Common Shares") with no par value

*b) Issued*

As at September 30, 2012 the Company has 62,485,286 Common Shares issued and outstanding. During the nine months ended September 30 2012 the Company issued a total of 3,400,00 Common Shares; 75,000 in connection with Kinsley (Note 7a), 50,000 as partial consideration for the acquisition of Gold Bug (Note 7d) and 3,275,000 as initial share consideration under the TV Tower Agreement (Note 4). See Note 18a for details of issuances subsequent to September 30, 2012.

*c) Share-based payments*

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

The number of 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.

Stock 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. Options exercisable at September 30, 2012 totalled 2,884,167 (December 31, 2011 – 1,750,000). Any consideration paid by the optionee on the exercise of options is credited to share capital.

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

## 12. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

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

| | Shares | Weighted Average Exercise Price | |
|---|---|---|---|
| Balance, December 31, 2011 | 4,027,500 | C$ | 3.35 |
| Options granted | 1,688,500 | | 1.30 |
| Options forfeit | (245,000) | | 2.07 |
| **Balance, September 30, 2012** | **5,471,000** | **C$** | **2.77** |

At September 30, 2012, Pilot Gold had incentive stock options issued to directors, officers, employees and key consultants to the Company outstanding as follows:

| Range of prices | Number of options outstanding | Weighted average remaining contractual life | Weighted average exercise price | Number of options exercisable | Weighted average exercise price of options exercisable |
|---|---|---|---|---|---|
| | | (in years) | C$ | | C$ |
| C$1.00 to C$1.99 | 1,488,500 | 6.40 | 1.08 | 425,000 | 1.08 |
| C$2.00 to C$2.99 | 290,000 | 9.44 | 2.81 | 30,000 | 2.54 |
| C$3.00 to C$3.99 | 3,692,500 | 8.75 | 3.45 | 2,429,167 | 3.45 |
| | **5,471,000** | **8.15** | **2.77** | **2,884,167** | **3.09** |

*Stock-based compensation:*

For the purposes of estimating the fair value of options using the Black-Scholes option pricing model, certain assumptions are made such as expected dividend yield, volatility of the market price of the Company's shares, risk-free interest rates and expected average life of the options.

The fair value of options granted ranged from C$0.62 to C$2.43 per option. The fair value of each option granted was determined using the Black-Scholes option pricing model and used the following range of assumptions:

| | |
|---|---|
| Risk free interest rate | 1.25% to 2.93% |
| Expected life | 5.00 to 6.29 years |
| Expected volatility | 75% to 84% |
| Forfeiture rate | 2.77% |
| Expected dividend yield | 0.0% |

For the nine months ended September 30, 2012, the Company has capitalized a total of $219,368 (December 31, 2011 - $287,553) of stock-based compensation to exploration properties and deferred exploration expenditures. For the nine months ended September 30, 2012, the Company charged a total of $1,569,735 of stock-based compensation expense to the statement of loss, of which $204,364 is attributed to property investigation.

Total stock based compensation expense for the nine months ended September 30, 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- unaudited)

## 12. SHARE CAPITAL AND CONTRIBUTED SURPLUS (continued)

*d) Warrants:*

During the nine months ended September 30, 2012 the Company issued 3,000,000 Pilot Warrants as part of the TV Tower Agreement (Note 4) entitling the holders to purchase one Common Share for each warrant held.

| | Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance, December 31, 2011 | - | C$ - |
| Warrants issued | 3,000,000 | 3.00 |
| Warrants exercised | - | - |
| Warrants expired | - | - |
| **Balance, September 30, 2012** | **3,000,000** | **C$ 3.00** |

As at September 30, 2012 the Company had 3,000,000 following warrants outstanding with an exercise price of C$3.00 and an expiry date of June 20, 2015.

The fair value of warrants issued during the period was C$0.19 and was determined using the Black-Scholes option pricing model and used the following range of assumptions:

| | |
|---|---|
| Risk free interest rate | 1.13% |
| Expected life | 3 years |
| Expected volatility | 63% |
| Expected dividend yield | 0.0% |

See Note 18a for details of issuances of warrants subsequent to September 30, 2012.

## 13. PROPERTY INVESTIGATION EXPENSE

| | September 30, 2012 | September 30, 2011 |
|---|---|---|
| Stock-based compensation | $ 204,364 | $ 281,270 |
| Salaries and benefits | 169,960 | 314,116 |
| Professional Fees | 41,686 | 104,234 |
| Transportation | 28,500 | 74,544 |
| Contract Labour | 14,392 | 4,211 |
| Consultants | 9,902 | 77,843 |
| Geochemistry | 8,060 | 103,932 |
| Meals and accommodation | 7,802 | 55,092 |
| Other | 6,097 | 94,527 |
| Vehicle leasing | 4,244 | 38,085 |
| | **$ 495,007** | **$ 1,147,854** |

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

## 14. COMMITMENTS

*Earn-in Option*

As described in Note 4 of these condensed interim consolidated financial statements, the Company has committed to incur $5 million of Expenditures relating to the Earn-in Option before June 20, 2013. If this Expenditure commitment is not met, then the remainder is payable in cash as per the terms described in Note 4. As at September 30, 2012 the outstanding commitment is $3.83 million.

Pursuant to the TV Tower Agreement, further to completion of all other conditions precedent (Note 4), 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 4 for share issuances and expenditures to be met in order to maintain the agreement in good standing.

*Gold Bug*

On August 31, 2012 the Company signed an amended lease agreement with Nevada Eagle Resources LLC, a subsidiary of Newmont, whereby Pilot shall make expenditures of $3,000,000 in accordance with the following schedule 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 September 30, 2012 the Company had incurred $30,355 expenditures on Gold Bug.

*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, office rental arrangements in Canada are paid through Oxygen (Notes 6 and 17). The aggregate lease expenditure related to Pilot Gold's office premises charged to the statement of loss for the nine months ended September 30, 2012 is $207,784.

Total future minimum lease payments, under non-cancellable operating leases as at September 30, 2012 are as follows:

| Year | |
|---|---|
| 2012 | $ 109,658 |
| 2013 | 423,565 |
| 2014 | 397,221 |
| 2015 | 275,425 |
| 2016 | 262,178 |
| 2017+ | 589,901 |
| | **$ 2,057,948** |

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

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

## 15. SEGMENT INFORMATION

The Company's operations are in one segment, the exploration for gold, copper and other precious and base metals. At September 30, 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 7.

The net loss (gain) relating to the operations in Canada, the United States and Turkey for the three months ended September 30, 2012 totalled $1,309,703, $774,297 and $(269,656) (comparative period, 2011: $1,290,014 $146,734, $620,872) respectively, for the nine months ended September 30, 2012, $3,194,533, $1,472,892 and $(9,272) (comparative period, 2011: $7,254,741, $997,317and $1,489,452) respectively. Plant and equipment are distributed by geographic segment per the table below:

| | September 30, 2012 | December 31, 2011 |
|---|---|---|
| Canada | $ 205,359 | $ 234,662 |
| USA | 416,511 | 466,492 |
| Turkey | 33,963 | 12,870 |
| | **$ 655,833** | **$ 714,024** |

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

## 16. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing transactions:

| | September 30 2012 | September 30 2011 |
|---|---|---|
| Issuance of shares and warrants relating to the Earn-In Option (Notes 4 and 12) | $ 4,113,316 | $ - |
| Issuance of shares for Kinsley (Notes 7d and 12) | 101,811 | 100,140 |
| Issuance of shares for Gold Bug (Notes 7e and 12) | 46,243 | - |
| Change in fair value of financial instruments | (983,550) | (82,151) |
| Accrued amounts payable included in Investment in Associates | - | 906,457 |
| Accrued amounts payable relating to the TV Tower project | 330,000 | - |
| Accrued amounts payable included in mineral properties | 59,396 | 259,284 |
| Stock based compensation included in mineral properties (Note 12) | 220,327 | 184,131 |
| | **$ 3,887,543** | **$ 1,367,861** |

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

## 17. RELATED PARTY TRANSACTIONS

*Oxygen Capital Corp*

Oxygen is a private company owned by three directors of the Company (Note 6). Oxygen provides services to the Company at cost including staffing, office rental and other administrative functions. Related party transactions during the period total $174,960 in expenditures and $73,559 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 September 30, 2012, the Company held a receivable and payable from and to Oxygen of $65,425 and $157,264 respectively, in addition to the deposit described in Note 6. Amounts were settled during the month of October.

*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:

| | Nine months ended September 30, | |
|---|---|---|
| | 2012 | 2011 |
| Salaries and other short-term employee benefits | 798,434 | 498,363 |
| Share-based payments | 1,148,546 | 4,994,033 |
| **Total** | **1,946,980** | **5,492,396** |

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. Subsequent to March 31, 2011, the Company 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.

## 18. SUBSEQUENT EVENT

*Bought deal financing*

On November 1, 2012 the Company announced that it had completed a bought deal financing with a syndicate of underwriters, whereby they have purchased, 17,825,000 units of the Company (the "Units") at a price of C$1.65 per Unit for gross proceeds to the Company of C$29,411,250 ($29,490,875). Each Unit consists of one Common Share of Pilot Gold and one half of one Common Share purchase warrant (each whole Common Share purchase warrant, a "Warrant"). Each Warrant will entitle the holder to acquire one Common Share of Pilot Gold at a price of C$2.20 at any time prior to October 31, 2014.

In addition, pursuant to rights granted under the TV Tower Property Joint Venture Letter Agreement dated June 20, 2012 between the Company, Teck, TMST and Orta Truva, TMST has subscribed for and purchased 1,230,565 Units on the same terms as those issued above to maintain its pro rata interest. Newmont has also subscribed for and purchased 3,669,482 Units of the Company on the same terms to maintain its pro rata interest, pursuant to rights granted under the arrangement agreement dated February 3, 2011 between the Company, Newmont and Fronteer Gold Inc. The aggregate gross proceeds raised through these private placements totalled C$8,085,078 ($8,106,966).

The fair value of the total 11,362,523 warrants issued is C$4,563,381($4,575,735 at noon rate on date of close) determined by means of the Black-Scholes option pricing model using the following assumptions:

| | |
|---|---|
| Risk free interest rate | 1.07% |
| Expected life | 2 years |
| Expected volatility | 60% |
| Expected dividend yield | 0.0% |

## 18. SUBSEQUENT EVENT (continued)

*Option grant*

On November 2, 2012, a further 135,000 share options were granted under the terms of the Plan, vesting in thirds at the end of each year from the date of grant and exercisable over a period of five years. The fair value of each option was determined to be $0.91 by means of the Black-Scholes option pricing model using the following assumptions:

| | |
|---|---|
| Risk free interest rate | 1.32% |
| Expected life | 5 years |
| Expected volatility | 73% |
| Forfeiture rate | 2.77% |
| Expected dividend yield | 0.0% |