



An exploration stage company

Consolidated Financial Statements

(Expressed in US Dollars)  
Year ended December 31, 2014



March 24, 2015

## **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, 2014 and December 31, 2013 and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the years then ended, 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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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.

**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2014 and December 31, 2013 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, |                   |
|------------------------------------------------------------------------|--------------------|-------------------|
|                                                                        | 2014               | 2013              |
|                                                                        | \$                 | \$                |
| <b>Assets</b>                                                          |                    |                   |
| <i>Current assets</i>                                                  |                    |                   |
| Cash and cash equivalents                                              | 13,842,109         | 9,806,384         |
| Short term investments                                                 | 4,028,676          | 9,199,306         |
| Receivables and prepayments (Note 6)                                   | 1,518,565          | 1,030,952         |
| Exploration properties held for sale                                   | -                  | 142,583           |
| Total current assets                                                   | 19,389,350         | 20,179,225        |
| <i>Non-current assets</i>                                              |                    |                   |
| Other financial assets (Note 7)                                        | 514,089            | 760,142           |
| Deposits (Note 8)                                                      | 1,283,024          | 1,362,460         |
| Plant and equipment                                                    | 409,358            | 554,105           |
| Exploration properties and deferred exploration expenditures (Note 10) | 30,381,676         | 14,883,769        |
| Earn-in option (Note 11)                                               | 19,786,018         | 18,676,395        |
| Investment in associates (Note 12)                                     | 15,083,066         | 14,958,216        |
| Total non-current assets                                               | 67,457,231         | 51,195,087        |
| <b>Total assets</b>                                                    | <b>86,846,581</b>  | <b>71,374,312</b> |
| <b>Liabilities and Shareholders' Equity</b>                            |                    |                   |
| <i>Current liabilities</i>                                             |                    |                   |
| Accounts payable and accrued liabilities (Note 13)                     | 1,620,799          | 1,708,714         |
| Total current liabilities                                              | 1,620,799          | 1,708,714         |
| <i>Non-current liabilities</i>                                         |                    |                   |
| Other liabilities                                                      | 115,640            | 68,126            |
| Total non-current liabilities                                          | 115,640            | 68,126            |
| <i>Shareholders' equity</i>                                            |                    |                   |
| Share capital (Note 15)                                                | 155,081,135        | 133,117,092       |
| Contributed surplus (Note 15)                                          | 19,088,696         | 16,319,202        |
| Accumulated other comprehensive loss                                   | (7,923,327)        | (4,096,784)       |
| Accumulated deficit                                                    | (84,874,213)       | (78,165,115)      |
| Total shareholders' equity                                             | 81,372,291         | 67,174,395        |
| Non controlling interest (Note 16)                                     | 3,737,851          | 2,423,077         |
| <b>Total liabilities and shareholders' equity</b>                      | <b>86,846,581</b>  | <b>71,374,312</b> |

The notes on pages 5 to 29 are an integral part of these consolidated financial statements.

These financial statements are approved by the board and authorised for issue on March 24, 2014:

"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,  |                          |
|----------------------------------------------------------------------------------------------|--------------------------|--------------------------|
|                                                                                              | 2014                     | 2013                     |
|                                                                                              | \$                       | \$                       |
| Operating expenses                                                                           |                          |                          |
| Wages and benefits                                                                           | 1,824,684                | 1,726,042                |
| Stock based compensation (Note 15)                                                           | 1,221,740                | 2,275,432                |
| Office and general                                                                           | 1,211,324                | 1,286,422                |
| Property investigation and technical studies                                                 | 603,739                  | 179,640                  |
| Investor relations, promotion and advertising                                                | 474,545                  | 416,477                  |
| Professional fees                                                                            | 353,204                  | 648,230                  |
| Depreciation                                                                                 | 171,916                  | 191,689                  |
| Write down of deferred exploration expenditures (Note 10c)                                   | 143,038                  | 1,373,760                |
| Listing and filing fees                                                                      | 46,588                   | 53,771                   |
|                                                                                              | <u>6,050,778</u>         | <u>8,151,463</u>         |
| Loss from operations                                                                         |                          |                          |
| Other income (expenses)                                                                      |                          |                          |
| Change in fair value and impairment of financial instruments (Note 7)                        | (894,120)                | (1,581,384)              |
| Other net (expense) income                                                                   | (81,357)                 | 37,942                   |
| Loss from associates (Note 12)                                                               | (63,138)                 | (148,147)                |
| Net gain on sale of financial instruments                                                    | -                        | 102,546                  |
| Foreign exchange gains                                                                       | 59,303                   | 238,214                  |
| Finance income                                                                               | 320,992                  | 359,978                  |
|                                                                                              | <u>(658,320)</u>         | <u>(990,851)</u>         |
| <b>Loss for the period and attributable to the shareholders</b>                              | <u><b>6,709,098</b></u>  | <u><b>9,142,314</b></u>  |
| <b>Other comprehensive loss</b>                                                              |                          |                          |
| Items that may be reclassified subsequently to net income                                    |                          |                          |
| Exchange differences on translations                                                         | (4,424,736)              | (3,485,705)              |
| Net fair value gain (loss) on financial assets (Note 7)                                      | 575,538                  | (19,634)                 |
| Amounts reclassified into net loss on impairment of financial assets                         | 22,655                   | 131,620                  |
|                                                                                              | <u>(3,826,543)</u>       | <u>(3,373,719)</u>       |
| Other comprehensive loss for the period, net of tax                                          |                          |                          |
|                                                                                              | <u>(3,826,543)</u>       | <u>(3,373,719)</u>       |
| <b>Total loss and comprehensive loss for the period and attributable to the shareholders</b> | <u><b>10,535,641</b></u> | <u><b>12,516,033</b></u> |
| <b>Loss per share</b>                                                                        |                          |                          |
| Basic and diluted loss per share                                                             | <u>\$ 0.07</u>           | <u>\$ 0.10</u>           |
| Weighted average number of Common Shares                                                     |                          |                          |
| Basic and diluted                                                                            | 101,154,616              | 87,365,874               |

The notes on pages 5 to 29 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<br>Shares<br># | Share capital<br>\$ | Warrants<br>\$ | Contributed surplus<br>\$ | Accumulated other<br>comprehensive income<br>(loss)<br>\$ | Accumulated deficit<br>\$ | Total shareholders' equity<br>\$ | Non-controlling interest<br>\$ | Total equity<br>\$ |
|-----------------------------------------------------------------------------|---------------------------------|---------------------|----------------|---------------------------|-----------------------------------------------------------|---------------------------|----------------------------------|--------------------------------|--------------------|
| 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                       | -                              | 71,057,923         |
| Issuances to Teck pursuant to the Earn-in Option                            | 3,275,000                       | 4,667,971           | -              | -                         | -                                                         | -                         | 4,667,971                        | -                              | 4,667,971          |
| Issuance as partial consideration for the Karaayi property                  | 1,250,000                       | 1,329,659           | -              | -                         | -                                                         | -                         | 1,329,659                        | -                              | 1,329,659          |
| Issuances relating to mineral property interests                            | 205,000                         | 211,861             | -              | -                         | -                                                         | -                         | 211,861                          | -                              | 211,861            |
| Share issue costs                                                           | -                               | (4,792)             | -              | -                         | -                                                         | -                         | (4,792)                          | -                              | (4,792)            |
| Partial disposal of subsidiary to Non-Controlling interest                  | -                               | -                   | -              | -                         | -                                                         | -                         | -                                | 2,423,077                      | 2,423,077          |
| Stock based compensation                                                    | -                               | -                   | -              | 2,427,806                 | -                                                         | -                         | 2,427,806                        | -                              | 2,427,806          |
| Net impairment of long-term investments recognised in the statement of loss | -                               | -                   | -              | -                         | 131,620                                                   | -                         | 131,620                          | -                              | 131,620            |
| Unrealized loss on long-term investments                                    | -                               | -                   | -              | -                         | (19,634)                                                  | -                         | (19,634)                         | -                              | (19,634)           |
| Cumulative translation adjustment                                           | -                               | -                   | -              | -                         | (3,485,705)                                               | -                         | (3,485,705)                      | -                              | (3,485,705)        |
| Net loss for the period                                                     | -                               | -                   | -              | -                         | -                                                         | (9,142,314)               | (9,142,314)                      | -                              | (9,142,314)        |
| Balance as at December 31, 2013                                             | 89,940,333                      | 133,117,092         | 5,103,994      | 11,215,208                | (4,096,784)                                               | (78,165,115)              | 67,174,395                       | 2,423,077                      | 69,597,472         |
| Issuances as consideration for mineral property rights (Note 10b)           | 4,218,164                       | 5,050,408           | 1,248,371      | 42,192                    | -                                                         | -                         | 6,340,971                        | -                              | 6,340,971          |
| Issuances on private placement                                              | 13,072,000                      | 18,130,145          | -              | -                         | -                                                         | -                         | 18,130,145                       | -                              | 18,130,145         |
| Share issue costs on private placement                                      | -                               | (1,224,336)         | -              | -                         | -                                                         | -                         | (1,224,336)                      | -                              | (1,224,336)        |
| Option exercise                                                             | 5,000                           | 7,826               | -              | (2,946)                   | -                                                         | -                         | 4,880                            | -                              | 4,880              |
| Stock based compensation (Note 15)                                          | -                               | -                   | -              | 1,481,878                 | -                                                         | -                         | 1,481,878                        | -                              | 1,481,878          |
| Net impairment of long-term investments recognised in the statement of loss | -                               | -                   | -              | -                         | 22,655                                                    | -                         | 22,655                           | -                              | 22,655             |
| Unrealized gain on long-term investments                                    | -                               | -                   | -              | -                         | 575,538                                                   | -                         | 575,538                          | -                              | 575,538            |
| Contributions by non-controlling interest (Note 16)                         | -                               | -                   | -              | -                         | -                                                         | -                         | -                                | 1,314,774                      | 1,314,774          |
| Cumulative translation adjustment                                           | -                               | -                   | -              | -                         | (4,424,736)                                               | -                         | (4,424,736)                      | -                              | (4,424,736)        |
| Net loss for the period                                                     | -                               | -                   | -              | -                         | -                                                         | (6,709,098)               | (6,709,098)                      | -                              | (6,709,098)        |
| Balance as at December 31, 2014                                             | 107,235,497                     | 155,081,135         | 6,352,365      | 12,736,332                | (7,923,327)                                               | (84,874,213)              | 81,372,292                       | 3,737,851                      | 85,110,143         |

The notes on pages 5 to 29 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, |              |
|-----------------------------------------------------------------------------|-------------------------|--------------|
|                                                                             | 2014                    | 2013         |
|                                                                             | \$                      | \$           |
| <b>Cash flows from operating activities</b>                                 |                         |              |
| Loss for the period                                                         | (6,709,098)             | (9,142,314)  |
| Adjusted for:                                                               |                         |              |
| Stock based compensation                                                    | 1,306,793               | 2,311,025    |
| Write-down of deferred exploration expenditures (Note 10c)                  | 143,038                 | 1,373,760    |
| Change in fair value and impairment of financial instruments                | 894,120                 | 1,478,838    |
| Other non-cash expenditures on the statement of loss                        | 351,744                 | 343,770      |
| Foreign exchange not related to cash                                        | 194,737                 | 603,543      |
| Interest income on short term investments                                   | (46,901)                | (107,602)    |
| Movements in working capital:                                               |                         |              |
| Accounts receivable and prepayments                                         | 21,720                  | 674,094      |
| Accounts payable and other liabilities                                      | (1,209,274)             | (337,518)    |
| Cash deposit to Oxygen Capital Corp.                                        | -                       | (182,924)    |
| Net cash outflow due to operating activities                                | (5,053,121)             | (2,985,328)  |
| <b>Cash flows from financing activities</b>                                 |                         |              |
| Cash received from financing                                                | 18,130,145              | -            |
| Share issue costs                                                           | (1,224,336)             | (4,792)      |
| Contributions from non-controlling interest                                 | 1,314,774               | -            |
| Cash inflow (outflow) from financing activities                             | 18,220,583              | (4,792)      |
| <b>Cash flows from investing activities</b>                                 |                         |              |
| Change in working capital attributable to deferred exploration expenditures | 197,154                 | (28,272)     |
| Cash received from Orta Truva for Eligible Expenditures                     | 4,803,425               | 13,212,032   |
| Eligible Expenditures on TV Tower                                           | (5,141,673)             | (9,819,250)  |
| Funding to Associates                                                       | (1,825,293)             | (5,759,540)  |
| Purchase of short term investments                                          | (4,117,285)             | (9,383,806)  |
| Maturity of short term investments                                          | 8,797,907               | 6,906,677    |
| Purchase and proceeds of sale of property and equipment                     | (52,755)                | (164,861)    |
| Transaction costs net of cash received for Cadillac Acquisition (Note 10b)  | (509,577)               | -            |
| Expenditures towards option to earn-in                                      | (3,231,680)             | (8,798,423)  |
| Interest in exploration properties and deferred exploration expenditures    | (7,032,183)             | (4,323,066)  |
| Proceeds from sale of mineral properties                                    | -                       | 3,000,000    |
| Purchase of reclamation deposits                                            | (84,522)                | (710,000)    |
| Net cash outflow due to investing activities                                | (8,196,482)             | (15,868,509) |
| Effect of foreign exchange rates                                            | (935,255)               | (1,559,171)  |
| Net increase (decrease) in cash and cash equivalents                        | 4,035,725               | (20,417,800) |
| Cash and cash equivalents at beginning of period                            | 9,806,384               | 30,224,184   |
| Cash and cash equivalents at end of the period                              | 13,842,109              | 9,806,384    |

See Note 21 for supplemental cash flow information

## **1. GENERAL INFORMATION**

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

Pilot Gold is an exploration stage business engaged in the acquisition and exploration of mineral properties located primarily in the United States of America and Turkey.

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

## **2. BASIS OF PRESENTATION**

These 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”).

## **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### *(a) 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.

### *(b) Basis of consolidation*

The financial statements of Pilot Gold consolidate the accounts of Pilot Gold Inc. and its subsidiaries. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation.

Subsidiaries are all entities (including structured entities) over which the Company has control. The Company controls an entity when the Company is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are deconsolidated from the date that control ceases.

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**PILOT GOLD INC.**  
**(An exploration stage company)**  
**Notes to the Consolidated Financial Statements**  
Year ended December 31, 2014  
(Expressed in United States Dollars, unless otherwise noted)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

The subsidiaries of Pilot Gold and their geographic locations at December 31, 2014 were as follows:

| <b>Name of subsidiary</b>                  | <b>Principal activity</b> | <b>Location</b> | <b>Proportion of ownership interest and voting power held</b> | <b>Non-Controlling Interest</b> |
|--------------------------------------------|---------------------------|-----------------|---------------------------------------------------------------|---------------------------------|
| Pilot Gold USA Inc.                        | Mineral exploration       | United States   | 100%                                                          | -                               |
| Kinsley Gold LLC                           | Mineral exploration       | United States   | 79%                                                           | 21%                             |
| Agola Madencilik Limited Şirketi ("Agola") | Mineral exploration       | Turkey          | 100%                                                          | -                               |
| Pilot Holdings Inc.                        | Holding company           | Cayman Islands  | 100%                                                          | -                               |
| Pilot Investments Inc.                     | Holding company           | Cayman Islands  | 100%                                                          | -                               |
| Cadillac Mining Corporation                | Mineral exploration       | Canada          | 100%                                                          | -                               |
| Cadillac West Explorations Inc.            | Mineral exploration       | Canada          | 100%                                                          | -                               |
| Cadillac South Explorations Inc.           | Mineral exploration       | United States   | 100%                                                          | -                               |

*(c) 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. Distributions received from an associate are accounted for as a reduction in the carrying amount of the Company's investment.

Transactions and 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 to the extent of the Company's interest in the associate unless the transaction provides evidence of an impairment of the asset transferred. Dilution gains and losses arising from changes in interests in investments in associates are recognized in the statement of loss.

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

*(d) Foreign currencies*

Items included in the financial statements of each subsidiary and associate 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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

#### *(e) Cash and cash equivalents*

Cash and cash equivalents comprises cash on hand, and deposits in banks that are readily convertible into a known amount of cash.

#### *(f) 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.

The Company has farm-out arrangements with third parties on certain of its exploration properties. The Company does not record any expenditure made by the farmee on its account. It also does not recognise any gain or loss on its exploration and evaluation farm-out arrangements but redesignates any costs previously capitalised in relation to the whole interest as relating to the partial interest retained. Any cash consideration received directly from the farmee is credited against costs previously capitalised in relation to the whole interest with any excess accounted for by the farmor as a gain on disposal.

#### *(g) 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     |

**PILOT GOLD INC.**

**(An exploration stage company)**

**Notes to the Consolidated Financial Statements**

Year ended December 31, 2014

(Expressed in United States Dollars, unless otherwise noted)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

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.

*(h) 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.

*(i) 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.

*(j) 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.

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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### *(k) 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.

#### *(l) Earnings or loss per share*

Earnings or loss 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.

#### *(m) 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.

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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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', 'Deposits' 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.
- (vi) **Financial liabilities at amortized cost:** Financial liabilities at amortized cost include account payables and accrued liabilities. Accounts 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, accounts 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.

#### *(n) 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.

#### *(o) Share-based payments*

- (i) **Stock Options:** 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.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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.

- (ii) Deferred share units (“DSUs”) and restricted share units (“RSUs”) are measured at fair value on the grant date. Equity settled DSUs and RSUs are recognized in equity while DSUs and RSUs to be redeemed in cash are recognized as a liability and subsequently adjusted at each financial position reporting date for changes in fair value. The expense is recognized over the vesting period, with a corresponding charge as an expense or capitalized to deferred exploration expenditures.

#### *Changes in accounting policies*

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

#### *Impairment of Assets*

IAS 36, Impairment of assets (“IAS 36”) seeks to ensure that an entity’s assets are not carried at more than their recoverable amount. The IASB has made small changes to the disclosures required by IAS 36 when recoverable amount is determined based on fair value less costs of disposal. The IASB has amended IAS 36 as follows:

- to remove the requirement to disclose the recoverable amount when a cash generating unit (“CGU”) contains goodwill or indefinite lived intangible assets but there has been no impairment;
- to require disclosure of the recoverable amount of an asset or CGU when an impairment loss has been recognised or reversed; and
- to require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognised or reversed.

The Company has applied the required disclosures as appropriate.

#### *Accounting for levies imposed by governments*

IFRIC 21, Accounting for levies imposed by governments (“IFRIC 21”) is an interpretation on the accounting for levies. IFRIC 21 will affect entities that are subject to levies that are not income taxes within the scope of IAS 12 *Income Taxes*. This interpretation has had no impact on these consolidated financial statements.

Several other amendments apply for the first time in 2014. However, they do not impact the consolidated financial statements of the Company.

### **4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and expenses. Estimates and judgments are regularly evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. Further information on management’s judgments, estimates and assumptions and how they impact the various accounting policies are described below and also in the relevant notes to the financial statements.

#### *Judgments*

In the process of applying the Company’s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the consolidated financial statements

#### *i) Functional currency*

The functional currency for the parent entity, each of its subsidiaries and associates, is the currency of the primary economic environment in which the entity operates. The parent entity, its Canadian subsidiaries and its holding company subsidiaries in the Cayman Islands (Note 3) have a Canadian dollar functional currency while the remaining subsidiaries have a US dollar functional currency. Determination of functional currency may involve certain judgments to determine the primary economic environment and the parent entity reconsiders the functional currency of its entities if there is a change in events and conditions which determined the primary economic environment.

#### **4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)**

*ii) Review of asset carrying values and impairment assessment*

In accordance with the Company's accounting policy, each asset is evaluated every reporting period to determine whether there are any indications of impairment. If any such indication exists, a formal estimate of recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is measured at the higher of value in use and fair value less costs to sell. The most significant assets assessed for impairment include the value of the Company's investment interests in associates, the carrying value of its exploration property interests, deferred exploration expenditures and the carrying value of the earn-in option intangible asset.

*Exploration and evaluation expenditure*

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

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.

During the year ended December 31, 2014, the Company wrote down the value of deferred exploration expenditures relating to the Arasanli Turkish property, further to a review and prioritisation of the Company's portfolio of mineral property assets. There were no indicators of impairment on the Company's other assets.

*Investment in associates and Earn-in Option*

Recoverability of the carrying amount 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 11 and Note 23). Changes in any of the assumptions used to determine impairment testing could materially affect the result of this analysis.

*iii) 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.

*Estimates and assumptions*

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market change or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

#### **4. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)**

i) *Exploration and evaluation expenditure*

In addition to applying judgment to determine whether future economic benefits are likely to arise from the Company's exploration and evaluation assets or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves, the Company has to apply a number of estimates and assumptions. The publication of a resource pursuant to National Instrument 43-101, Standards of Disclosure for Mineral Projects ("NI 43-101"), is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified (i.e., measured, indicated or inferred). The estimates directly impact when the Company defers exploration and evaluation expenditure. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of expenditure is unlikely, the relevant capitalised amount is written off in the statement of profit or loss and other comprehensive income in the period when the new information becomes available.

#### **5. RECENT ACCOUNTING PRONOUNCEMENTS**

New relevant IFRS pronouncements that have been issued but are not yet effective are listed below. We plan to apply the new standard or interpretation in the annual period for which it is first required.

*Sale or contribution of assets between an investor and its associate*

IFRS 10, Consolidated Financial Statements ("IFRS 10") has been amended to address an inconsistency between IFRS 10 and IAS 28, Investments in Associates. The main consequence of the amendment is that a full gain or loss is recognized when the transaction involves a business combination, and whereas a partial gain is recognized when the transaction involves assets that do not constitute a business. The amendment is effective for years beginning January 1, 2016.

*Financial instruments*

In July 2014 the IASB released the final version of IFRS 9, Financial Instruments ("IFRS 9") covering classification and measurement of financial assets that will replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 requires that all financial assets be classified and subsequently measured at amortized cost or at fair value based on a company's business model for managing financial assets and the contractual cash flow characteristics of the financial assets.

Financial liabilities are classified and subsequently measured at amortized cost except for financial liabilities classified as at fair value through profit or loss, financial guarantees and certain other exceptions.

The new hedge accounting model will align hedge accounting with risk management activities undertaken by an entity. Components of financial and non - financial items will now be eligible for hedge accounting as long as the risk component can be identified and measured. The new hedge accounting model includes eligibility criteria that must be met but these criteria are based on an economic assessment of the strength of the hedging relationship, which can be determined using internal risk management data. New disclosure requirements relating to hedge accounting will be required and are meant to simplify existing disclosures. The IASB currently has a separate project on macro hedging activities and until that project is completed, entities are permitted to continue to apply IAS 39 for all of their hedge accounting.

On release of the final version, the IASB announced an updated mandatory effective date of January 1, 2018. Entities are still permitted to early adopt all or part of IFRS 9. 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 the above standard.

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**6. RECEIVABLES**

|                                                                   | <b>December 31,<br/>2014</b> | December 31,<br>2013 |
|-------------------------------------------------------------------|------------------------------|----------------------|
| Sales taxes receivable                                            | \$ 98,738                    | \$ 29,993            |
| Receivable from Orta Truva for expenditures on TV Tower (Note 11) | 1,102,104                    | 750,914              |
| Other receivables                                                 | 64,324                       | 90,039               |
| Prepayments                                                       | 253,399                      | 160,006              |
|                                                                   | <b>\$ 1,518,565</b>          | <b>\$ 1,030,952</b>  |

The majority of Eligible Expenditures (Note 11) are incurred by the Company's wholly-owned Turkish subsidiary in accordance with a technical services agreement relating to exploration at TV Tower. The balance due from Orta Truva Madencilik Şanayi ve Ticaret A.Ş. ("Orta Truva"), the Turkish company that holds TV Tower, reflects Eligible Expenditures incurred by the Company at TV Tower and includes recoverable VAT that is not an Eligible Expenditure. The Company subsequently funds Orta Truva (Notes 11 & 12) such that it can settle the amount due.

**7. 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 valuation 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.

As at December 31, 2014, Pilot Gold holds Level 1 equity securities with a total fair value of \$514,089. As at December 31, 2013 the Company held only Level 1 equity securities with a total fair value of \$760,142.

The total amount in other comprehensive income relating to available for sale financial instruments as at December 31, 2014 is \$578,558 (as at December 31, 2013: \$19,609).

**8. DEPOSITS**

On August 1, 2012 Pilot Gold entered into a technical and administrative services agreement (the "Oxygen Agreement") with Oxygen Capital Corp. ("Oxygen"), a related party, whereby Oxygen provides geological, engineering, corporate development, administrative and shareholder communication services to the Company at cost. As at December 31, 2014 Oxygen holds an advance deposit of \$274,085 (December 31, 2013: \$401,864) on behalf of the Company, that on termination of the Oxygen Agreement will be applied against the final three months of services, see also related party transactions in Note 22. The deposit is adjusted biannually to reflect the most recent three months of invoices for services received from Oxygen.

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**8. DEPOSITS (continued)**

The Company holds \$246,377 in Certificates of Deposit with a US bank, to back certain standby letters of credit, as well as a bond for \$748,822 with the United States Interior Department's Bureau of Land Management ("BLM") in order to meet bonding requirements with the BLM on its mineral properties in the USA.

**9. PLANT AND EQUIPMENT**

|                                        | Field equipment | Equipment      | Computer software | Furniture and fixtures | Leasehold improvements | Total            |
|----------------------------------------|-----------------|----------------|-------------------|------------------------|------------------------|------------------|
| Cost:                                  | \$              | \$             | \$                | \$                     | \$                     | \$               |
| Balance as at January 1, 2013          | 46,453          | 711,577        | 269,416           | 291,763                | 308,887                | 1,628,096        |
| Additions                              | 7,019           | 85,769         | 36,918            | 37,484                 | -                      | 167,190          |
| Disposals and write-downs              | -               | (6,029)        | -                 | -                      | -                      | (6,029)          |
| Cumulative translation adjustment      | (223)           | (15,159)       | (8,869)           | (12,793)               | -                      | (37,044)         |
| Balance as at December 31, 2013        | 53,249          | 776,158        | 297,465           | 316,454                | 308,887                | 1,752,213        |
| Additions                              | 5,329           | 58,376         | -                 | -                      | 13,620                 | 77,325           |
| Disposals and write-downs              | (2,768)         | (73,187)       | -                 | -                      | -                      | (75,955)         |
| Cumulative translation adjustment      | (266)           | (18,643)       | (10,687)          | (15,415)               | -                      | (45,011)         |
| <b>Balance as at December 31, 2014</b> | <b>55,544</b>   | <b>742,704</b> | <b>286,778</b>    | <b>301,039</b>         | <b>322,507</b>         | <b>1,708,572</b> |
| Depreciation:                          |                 |                |                   |                        |                        |                  |
| Balance as at January 1, 2013          | 13,907          | 410,794        | 233,253           | 174,493                | 172,719                | 1,005,166        |
| Current period depreciation            | 7,198           | 85,466         | 40,406            | 29,675                 | 58,322                 | 221,067          |
| Disposals and write-downs              | -               | (1,209)        | -                 | -                      | -                      | (1,209)          |
| Cumulative translation adjustment      | (109)           | (10,256)       | (8,076)           | (8,475)                | -                      | (26,916)         |
| Balance as at December 31, 2013        | 20,996          | 484,795        | 265,583           | 195,693                | 231,041                | 1,198,108        |
| Current period depreciation            | 6,696           | 74,515         | 22,538            | 23,827                 | 54,542                 | 182,118          |
| Disposals and write-downs              | -               | (44,707)       | -                 | -                      | -                      | (44,707)         |
| Cumulative translation adjustment      | (160)           | (14,285)       | (10,532)          | (11,328)               | -                      | (36,305)         |
| <b>Balance as at December 31, 2014</b> | <b>27,532</b>   | <b>500,318</b> | <b>277,589</b>    | <b>208,192</b>         | <b>285,583</b>         | <b>1,299,214</b> |
| Net Book Value:                        |                 |                |                   |                        |                        |                  |
| As at December 31, 2013                | 32,253          | 291,363        | 31,882            | 120,761                | 77,846                 | 554,105          |
| <b>As at December 31, 2014</b>         | <b>28,012</b>   | <b>242,386</b> | <b>9,189</b>      | <b>92,847</b>          | <b>36,924</b>          | <b>409,358</b>   |

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

**10. EXPLORATION PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES**

None of the Company's properties have any known body of commercial ore or any established economic deposit; all are currently in the exploration stage. Expenditures at Halılağa are recorded in the Company's investment in Truva Bakır, an equity-accounted associate (Note 12). Expenditures on TV Tower are bifurcated as 60% to the Earn-in Option (Note 11) and 40% to the Company's investment in Orta Truva (Note 12) in order to maintain the Company's proportionate interest in Orta Truva until such time as the earn-in to an additional 20% has been completed.

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

|                             | Total<br>January 1, 2013 | Additions/<br>Allocations | Transfer to held for<br>sale | Write-down or<br>disposal of asset | Recovery from<br>third party<br>earn-in | Total<br>December 31, 2013 | Cadillac<br>Acquisition | Additions/<br>Allocations | Write-down of<br>asset | Recovery from<br>third party<br>earn-in | Total<br>December 31, 2014 |
|-----------------------------|--------------------------|---------------------------|------------------------------|------------------------------------|-----------------------------------------|----------------------------|-------------------------|---------------------------|------------------------|-----------------------------------------|----------------------------|
|                             | \$                       | \$                        | \$                           | \$                                 | \$                                      | \$                         | \$                      | \$                        | \$                     | \$                                      | \$                         |
| <b>USA</b>                  |                          |                           |                              |                                    |                                         |                            |                         |                           |                        |                                         |                            |
| Kinsley Mountain (Note 10a) | 4,809,577                | 6,268,701                 | -                            | -                                  | -                                       | 11,078,278                 | -                       | 6,322,982                 | -                      | -                                       | 17,401,260                 |
| Goldstrike (Note 10b)       | -                        | -                         | -                            | -                                  | -                                       | -                          | 8,336,985               | 314,377                   | -                      | -                                       | 8,651,362                  |
| Viper                       | 1,013,835                | 5,773                     | -                            | -                                  | -                                       | 1,019,608                  | -                       | 17,333                    | -                      | -                                       | 1,036,941                  |
| Brik                        | 743,598                  | 18,324                    | -                            | -                                  | -                                       | 761,922                    | -                       | 22,790                    | -                      | -                                       | 784,712                    |
| Griffon                     | 415,971                  | 300,100                   | -                            | -                                  | -                                       | 716,071                    | -                       | 36,644                    | -                      | -                                       | 752,715                    |
| Gold Bug                    | 126,130                  | 275,184                   | -                            | -                                  | -                                       | 401,314                    | -                       | 336,560                   | -                      | -                                       | 737,874                    |
| Stateline                   | 252,098                  | 26,621                    | -                            | -                                  | -                                       | 278,719                    | -                       | 27,871                    | -                      | -                                       | 306,590                    |
| Drum Mountain               | -                        | 118,918                   | -                            | -                                  | -                                       | 118,918                    | -                       | 109,105                   | -                      | -                                       | 228,023                    |
| Easter                      | 143,433                  | 49,409                    | -                            | -                                  | -                                       | 192,842                    | -                       | 12,133                    | -                      | -                                       | 204,975                    |
| Antelope                    | 113,019                  | 36,528                    | -                            | -                                  | -                                       | 149,547                    | -                       | 40,697                    | -                      | -                                       | 190,244                    |
| Anchor                      | 196,583                  | 2,991                     | -                            | -                                  | (33,024)                                | 166,550                    | -                       | -                         | -                      | (79,570)                                | 86,980                     |
| New Boston                  | 1,281,116                | 924                       | -                            | (1,282,040)                        | -                                       | -                          | -                       | -                         | -                      | -                                       | -                          |
| <b>Total USA</b>            | <b>9,095,360</b>         | <b>7,103,473</b>          | <b>-</b>                     | <b>(1,282,040)</b>                 | <b>(33,024)</b>                         | <b>14,883,769</b>          | <b>8,336,985</b>        | <b>7,240,492</b>          | <b>-</b>               | <b>(79,570)</b>                         | <b>30,381,676</b>          |
| <b>Turkey</b>               |                          |                           |                              |                                    |                                         |                            |                         |                           |                        |                                         |                            |
| Arasanlı                    | 140,651                  | 1,932                     | (142,583)                    | -                                  | -                                       | -                          | -                       | -                         | -                      | -                                       | -                          |
| <b>Total Turkey</b>         | <b>140,651</b>           | <b>1,932</b>              | <b>(142,583)</b>             | <b>-</b>                           | <b>-</b>                                | <b>-</b>                   | <b>-</b>                | <b>-</b>                  | <b>-</b>               | <b>-</b>                                | <b>-</b>                   |
| <b>Total</b>                | <b>9,236,011</b>         | <b>7,105,405</b>          | <b>(142,583)</b>             | <b>(1,282,040)</b>                 | <b>(33,024)</b>                         | <b>14,883,769</b>          | <b>8,336,985</b>        | <b>7,240,492</b>          | <b>-</b>               | <b>(79,570)</b>                         | <b>30,381,676</b>          |
| <b>Assets held for sale</b> |                          |                           |                              |                                    |                                         |                            |                         |                           |                        |                                         |                            |
| Regent (Note 10d)           | 2,982,050                | -                         | -                            | (2,982,050)                        | -                                       | -                          | -                       | -                         | -                      | -                                       | -                          |
| Buckskin North              | 91,720                   | -                         | -                            | (91,720)                           | -                                       | -                          | -                       | -                         | -                      | -                                       | -                          |
| Arasanlı (Note 10c)         | -                        | -                         | 142,583                      | -                                  | -                                       | 142,583                    | -                       | 455                       | (143,038)              | -                                       | -                          |
| <b>Total held for sale</b>  | <b>3,073,770</b>         | <b>-</b>                  | <b>142,583</b>               | <b>(3,073,770)</b>                 | <b>-</b>                                | <b>142,583</b>             | <b>-</b>                | <b>455</b>                | <b>(143,038)</b>       | <b>-</b>                                | <b>-</b>                   |

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

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

The Company holds a 79.1% interest in Kinsley Gold LLC ("KG LLC") (Note 16), the entity that holds the underlying lease and directly held claims that comprise the Kinsley Mountain property (together, "Kinsley").

The value of the non-controlling interest increased by \$1,314,773 during the year ended December 31, 2014 upon receipt of funding from the non-controlling interest holder, Intor Resources Corporation.

**b) Goldstrike**

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

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

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

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

**Assets acquired and liabilities assumed:**

|                                |           |                  |
|--------------------------------|-----------|------------------|
| Cash                           | \$        | 53,343           |
| Available for sale investments |           | 17,960           |
| Reclamation deposit            |           | 13,740           |
| Goldstrike mineral property    |           | 8,336,985        |
| Net current liabilities        |           | (1,250,123)      |
| Asset retirement obligation    |           | (8,000)          |
|                                | <b>\$</b> | <b>7,163,905</b> |

**Consideration paid:**

|                                                                                     |           |                  |
|-------------------------------------------------------------------------------------|-----------|------------------|
| Issuance of Common Shares                                                           |           | 5,050,408        |
| Issuance of Warrants                                                                |           | 1,243,177        |
| Transaction costs                                                                   |           | 562,920          |
| Drawdown on loan to Cadillac                                                        |           | 258,653          |
| Common Shares made issuable upon exercise of Cadillac Options and Cadillac Warrants |           | 48,747           |
|                                                                                     | <b>\$</b> | <b>7,163,905</b> |

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

c) *Arasanli*

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

d) *Regent*

The Company announced on January 10, 2013 that it had closed a definitive purchase agreement (the “Regent Agreement”) to sell 100% of the Regent exploration property to Rawhide Mining LLC (“Rawhide”) for \$3,000,000 in cash. Pursuant to the Regent Agreement, Pilot Gold retains 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 Rawhide has achieved production at Regent.

**11. 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 Teck Madencilik Sanayi Ticaret A.Ş (“TMST”), pursuant to which, shares equal to an additional 20% interest in Orta Truva will be transferred from TMST to the Company, such that the Company will hold a 60% interest and TMST will hold a 40% interest in Orta Truva. Orta Truva holds the licenses that comprise TV Tower. During the period of earn-in, the Company will be the project operator at TV Tower. Successful completion of the Earn-in Option requires:

- a) 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;
- b) incurring \$21 million in eligible exploration expenditures (“Eligible Expenditures”) over three years (the “TV Tower Expenditure Requirement”);
- c) issuing 1,637,500 Common Shares to TMST on completion of each of the first and second year expenditure requirements; and
- 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 determined pursuant to a National Instrument 43-101 *Standards of Disclosure for Mineral Projects* (the “Additional Consideration”).

Pursuant to the funding mechanism outlined in the TV Tower Agreement, and in order to maintain the relative interests of TMST and the Company in Orta Truva until the Earn-in Option obligations have been satisfied, 60% of the Eligible Expenditures in a given period are advanced by the Company to TMST and accounted for as a component of the Earn-in Option, a non-current asset. The remaining 40% is recorded to the Company’s interest in Orta Truva (Note 12).

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

The Earn-in Option was satisfied on March 12, 2015 see Note 23.

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**11. OPTION TO EARN-IN TO TV TOWER (continued)**

The total value of the Earn-in Option asset as at December 31, 2014 consists of the following, and includes certain costs capitalized pursuant to the Company's accounting policies, that are not Eligible Expenditures:

|                               |                      |
|-------------------------------|----------------------|
| January 1, 2013               | \$ 7,239,057         |
| Eligible Expenditures         | 6,519,779            |
| Non - Eligible Expenditures   | 143,113              |
| Value of Common Shares issued | 5,465,766            |
| Foreign exchange              | (691,320)            |
| December 31, 2013             | \$ 18,676,395        |
| Eligible Expenditures         | 2,726,618            |
| Non - Eligible Expenditures   | 39,831               |
| Foreign exchange              | (1,656,826)          |
| <b>December 31, 2014</b>      | <b>\$ 19,786,018</b> |

**12. INVESTMENT IN ASSOCIATES***Turkey*

Pilot Gold owns 40% of Halilağa through a 40% ownership stake in Truva Bakır Maden İşletmeleri A.Ş. ("Truva Bakır"), a Turkish company, controlled (60%) by TMST, an indirect subsidiary of Teck. Pilot Gold also holds a 40% interest in Orta Truva. Pilot Gold became the operator of TV Tower on September 20, 2012 and has an option to acquire an additional 20% interest of Orta Truva (Note 11). Orta Truva is also controlled (60%) by TMST. Both Orta Truva and Truva Bakır are incorporated in Turkey.

On September 4, 2013 Orta Truva acquired a beneficial interest in the Karaayı license, contiguous to, and now a part of TV Tower (the "Karaayı Purchase"). Consideration for the Karaayı Purchase was paid for by the Company as 1,250,000 Common Shares, and \$300,000 cash, accounted for pursuant to the Funding Mechanism. Until the transaction closes and conveyance of title is completed, the license will be held in trust and for the benefit of Orta Truva. By virtue of a services agreement, Orta Truva is the operator at Karaayı during the conveyance period and in turn, pursuant to the TV Tower Agreement, the Company will undertake and oversee all exploration activities at the property on behalf of Orta Truva. Exploration expenditures at Karaayı incurred by Pilot Gold qualify as Eligible Expenditures. Formal transfer of title to the Karaayı license to Orta Truva is pending.

*United States*

During 2013 Gold Springs was diluted to 17.5% and reclassified into other financial assets (Note 7).

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.

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**12. INVESTMENT IN ASSOCIATES (continued)**

|                                            | <b>Truva Bakır</b>  | <b>Orta Truva</b>   | <b>Gold Springs</b> | <b>Total</b>         |
|--------------------------------------------|---------------------|---------------------|---------------------|----------------------|
| At December 31, 2012                       | \$ 6,412,078        | \$ 4,569,351        | \$ 945,349          | \$ 11,926,778        |
| Share of loss                              | 413                 | (148,560)           | -                   | (148,147)            |
| Funding                                    | 279,104             | 4,574,838           | -                   | 4,853,942            |
| Exchange differences                       | (413,382)           | (315,626)           | -                   | (729,008)            |
| Reclassification to other financial assets | -                   | -                   | (945,349)           | (945,349)            |
| At December 31, 2013                       | \$ 6,278,213        | \$ 8,680,003        | \$ -                | \$ 14,958,216        |
| Share of loss                              | 3,384               | (66,522)            | -                   | (63,138)             |
| Funding                                    | 195,907             | 1,324,465           | -                   | 1,520,372            |
| Exchange differences                       | (539,941)           | (792,443)           | -                   | (1,332,384)          |
| <b>At December 31, 2014</b>                | <b>\$ 5,937,563</b> | <b>\$ 9,145,503</b> | <b>\$ -</b>         | <b>\$ 15,083,066</b> |

Funding to Truva Bakır for the year ended December 31, 2014 includes 40% of Eligible Expenditures incurred.

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

|                               | <b>At December 31, 2014</b> |                      | <b>At December 31, 2013</b> |                  |
|-------------------------------|-----------------------------|----------------------|-----------------------------|------------------|
|                               | <b>Truva Bakır</b>          | <b>OrtaTruva</b>     | <b>Truva Bakır</b>          | <b>OrtaTruva</b> |
| Current assets                | \$ 274,152                  | \$ 2,799,015         | \$ 307,293                  | \$ 4,394,365     |
| Non-current assets            | 14,664,920                  | 21,214,510           | 15,579,312                  | 18,239,454       |
| Current liabilities           | (95,164)                    | (1,149,767)          | (191,073)                   | (933,811)        |
| Total net assets              | <b>\$ 14,843,908</b>        | <b>\$ 22,863,758</b> | \$ 15,695,532               | \$ 21,700,008    |
| Gain/(loss)                   | 8,458                       | (166,304)            | 1,032                       | (371,400)        |
| % interest held               | 40%                         | 40%                  | 40%                         | 40%              |
| Company's share of net assets | <b>\$ 5,937,563</b>         | <b>\$ 9,145,503</b>  | \$ 6,278,213                | \$ 8,680,003     |

As at December 31, 2014, the Company has outstanding receivables from Truva Bakır of \$5,372, and from Orta Truva of \$1,299,828. The balance due from Orta Truva is accounted for as \$519,931 attributable to the investment in associate and \$779,897 attributable to the Earn-in Option asset. The balance due includes \$197,724 relating to Eligible Expenditures incurred and cash called by Orta Truva subsequent to period end. During the year ended December 31, 2014, an \$877,840 distribution was received from Orta Truva for the Company's share of a VAT refund from the Turkish tax authorities relating to periods prior to 2014.

### 13. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

|                            | <b>December 31,<br/>2014</b> | December 31,<br>2013 |
|----------------------------|------------------------------|----------------------|
| Trade payables             | \$ 650,851                   | \$ 240,434           |
| Other payables             | 119,306                      | 85,934               |
| Accrued liabilities        | 765,971                      | 409,799              |
| Amounts due to Orta Truva  | 22,511                       | 357,714              |
| Amounts due to Truva Bakir | 28,395                       | 48,259               |
| Amounts due to TMST        | 33,765                       | 536,574              |
| Decommissioning liability  | -                            | 30,000               |
|                            | <b>\$ 1,620,799</b>          | <b>\$ 1,708,714</b>  |

Accounts payable and accrued liabilities are non-interest bearing and are normally settled on 30-day terms. Amounts due to associates and TMST, relate to cash calls due in connection with the Company's pro-rata share of costs incurred at Halilağa and TV Tower. Cash calls are non-interest bearing and are normally settled on 10-day terms. Accrued liabilities at each period end include amounts payable to employees and service providers of the Company in respect of that year's bonus amount paid in the following year.

### 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 2014 of 26.00% (2013 – 25.75%).

|                                  | <b>December 31,<br/>2014</b> | December 31,<br>2013 |
|----------------------------------|------------------------------|----------------------|
| Loss before taxes                | \$ (6,709,098)               | \$ (9,142,314)       |
| Statutory tax rate               | 26.00%                       | 25.75%               |
| Expected income tax recovery     | (1,744,365)                  | (2,354,146)          |
| Permanent differences            | 1,092,559                    | 420,903              |
| Benefit not recognized and other | 651,806                      | 1,933,243            |
| Income tax expense (recovery)    | <b>\$ -</b>                  | <b>\$ -</b>          |

- b) Deferred income taxes arise from temporary differences in the recognition of income and expenses for financial and tax purposes. The Company holds no deferred tax assets and liabilities.
- c) The following are temporary differences the net benefits of which have not been recognized as at December 31, 2014:

|                                  | <b>December 31,<br/>2014</b> | December 31,<br>2013 |
|----------------------------------|------------------------------|----------------------|
| Operating losses carried forward | \$ 26,098,665                | \$ 17,966,597        |
| Equipment                        | 580,292                      | 531,581              |
| Mineral properties               | 286,149                      | (417,929)            |
| Investments and other            | 3,666,327                    | 3,070,270            |
| Total temporary differences      | <b>\$ 30,631,433</b>         | <b>\$ 21,150,519</b> |

#### 14. INCOME TAXES (continued)

- d) The Company has non capital losses which may be applied to reduce future taxable income. These losses expire between 2015 and 2034:

| Canada     | US         | Turkey    | Total             |
|------------|------------|-----------|-------------------|
| 13,864,000 | 10,041,000 | 2,194,000 | <b>26,099,000</b> |

There are no income taxes owed by Pilot Gold at December 31, 2014

#### 15. SHARE CAPITAL AND CONTRIBUTED SURPLUS

a) *Authorized*

Unlimited Common Shares with no par value.

b) *Issued*

On April 2, 2014, the Company completed a bought deal financing for aggregate gross proceeds of C\$20,000,160 (\$18,130,145). A syndicate of underwriters purchased, on a bought deal basis, 13,072,000 Common Shares at a price of C\$1.53 per Common Share.

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

c) *Stock-based compensation*

*Pilot Gold Stock Option Plan*

The Pilot Gold Stock Option Plan (2014) (the "Option Plan"), was approved on May 12, 2014. Under the terms of the Option 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 Common 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 Option Plan to date are exercisable over periods of five or ten years. In accordance with the Option 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.

Option transactions and the number of Options outstanding are summarized as follows, no options expired in the period, see Note 23 for stock based compensation granted subsequent to year end.

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

|                                   | Shares           | Weighted Average<br>Exercise Price |
|-----------------------------------|------------------|------------------------------------|
|                                   | #                | C\$                                |
| Balance, January 1, 2013          | 5,541,000        | 2.75                               |
| Options granted                   | 1,590,000        | 2.12                               |
| Options forfeited                 | (211,000)        | 2.92                               |
| <b>Balance, December 31, 2013</b> | <b>6,920,000</b> | <b>2.60</b>                        |
| Options granted                   | 2,555,000        | 1.13                               |
| Options forfeited                 | (585,000)        | 2.50                               |
| Options exercised                 | (5,000)          | 1.08                               |
| <b>Balance, December 31, 2014</b> | <b>8,885,000</b> | <b>2.18</b>                        |

At December 31, 2014, Pilot Gold had incentive Options issued to directors, officers, employees and key consultants to the Company outstanding as follows:

| Range of prices    | Number of<br>Options<br>outstanding | Weighted average<br>remaining<br>contractual life | Weighted<br>average<br>exercise<br>price | Number of<br>Options<br>exercisable | Weighted average<br>exercise<br>price of Options<br>exercisable |
|--------------------|-------------------------------------|---------------------------------------------------|------------------------------------------|-------------------------------------|-----------------------------------------------------------------|
|                    | #                                   | (in years)                                        | C\$                                      | #                                   | C\$                                                             |
| C\$0.01 to C\$0.99 | 250,000                             | 4.07                                              | 0.88                                     | -                                   | -                                                               |
| C\$1.00 to C\$1.99 | 3,705,000                           | 3.77                                              | 1.15                                     | 1,515,000                           | 1.12                                                            |
| C\$2.00 to C\$2.99 | 1,585,000                           | 3.18                                              | 2.15                                     | 838,333                             | 2.16                                                            |
| C\$3.00 to C\$3.99 | 3,345,000                           | 6.28                                              | 3.45                                     | 3,345,000                           | 3.45                                                            |
|                    | <b>8,885,000</b>                    | <b>4.62</b>                                       | <b>2.18</b>                              | <b>5,698,333</b>                    | <b>2.64</b>                                                     |

For the purposes of estimating the fair value of options using Black-Scholes, certain assumptions are made such as expected dividend yield, volatility of the market price of the Company's shares, risk-free interest rates and expected average life of the Options. We base our expectation of volatility on the volatility of similar publicly-listed companies, as the expected life of our Options exceeds our trading history.

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

For the year ended December 31, 2014, the Company has capitalized a total of \$217,825 (December 31, 2013 - \$106,835) of stock-based compensation to exploration properties and deferred exploration expenditures. For the year ended December 31, 2014, the Company charged a total of \$1,521,124 (2013: \$2,311,023) of stock-based compensation expense to the statement of loss relating to Options, of which \$84,505 (2013: \$35,591) is attributed to property investigation.

*Cadillac Acquisition Stock Option Plan*

Pursuant to the acquisition of Cadillac (Note 10b), and as adjusted for the transaction ratio of 0.12195, the Company assumed 67,072 Cadillac Options each of which is exercisable for a Common Share. The weighted average exercise price of the Cadillac Options is C\$0.74. During the year ended December 31, 2014, 12,195 options expired, there were no forfeitures, or exercises. Subsequent to year end 48,780 Cadillac Options were exercised.

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

Outstanding options are summarised as follows:

| Prices  | Number of Options<br>outstanding and<br>exercisable | Weighted average<br>remaining<br>contractual life |
|---------|-----------------------------------------------------|---------------------------------------------------|
|         | #                                                   | (in years)                                        |
| C\$0.41 | 48,780                                              | 0.66                                              |
| C\$2.05 | 6,097                                               | 0.66                                              |
|         | <b>54,877</b>                                       | <b>0.66</b>                                       |

*d) Warrants:*

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

|                                     | Number of<br>Warrants | Weighted<br>Average<br>Exercise Price |
|-------------------------------------|-----------------------|---------------------------------------|
|                                     | #                     | C\$                                   |
| Balance, January 1, 2013            | -                     | -                                     |
| Teck Warrants issued                | 3,000,000             | 3.00                                  |
| Warrants issued                     | 11,362,524            | 2.20                                  |
| Warrants exercised or expired       | -                     | -                                     |
| Balance, December 31, 2013          | 14,362,524            | 2.37                                  |
| Cadillac Warrants issued (Note 10b) | 4,218,164             | 2.00                                  |
| Warrants expired                    | (11,362,524)          | 2.20                                  |
| Warrants exercised                  | -                     | -                                     |
| <b>Balance, December 31, 2014</b>   | <b>7,218,164</b>      | <b>2.42</b>                           |

As at December 31, 2014 the Company had the following Warrants outstanding:

| Exercise<br>price | Number of Warrants<br>outstanding and<br>exercisable | Weighted average<br>remaining<br>contractual life |
|-------------------|------------------------------------------------------|---------------------------------------------------|
| C\$               | #                                                    | (in years)                                        |
| 2.00              | 4,218,164                                            | 1.66                                              |
| 3.00              | 3,000,000                                            | 0.47                                              |
| <b>2.42</b>       | <b>7,218,164</b>                                     | <b>1.17</b>                                       |

The fair value of Warrants granted in 2014 was C\$0.32. The significant inputs into the model were share price of C\$1.30 at the grant date, exercise price shown above, volatility of 68%, dividend yield of 0%, an expected life of 2.00 years and annual risk-free interest rate of 1.10%.

*Cadillac Warrants*

Pursuant to the acquisition of Cadillac (Note 10b), and as adjusted for the transaction ratio of 0.12195, the Company assumed 135,962 Cadillac Warrants each of which were exercisable for a Common Share. The exercise price of the Cadillac Warrants was C\$1.64, and each expired on November 15, 2014. There were no forfeitures or exercises during the period.

## 16. NON-CONTROLLING INTEREST

On October 24, 2013, the underlying lease and directly-owned claims that comprise Kinsley, were transferred into KG LLC pursuant to which, a non-controlling interest of \$2,423,077 was recorded and included in additions for that year. Prior to this, the property interests were accounted for as an undivided asset. Set out below is the summary financial information for KG LLC, the only subsidiary of the Company that has a non-controlling interest. As KG LLC's expenditures are capitalised to the Kinsley property, there are no expenses recorded in the statement of income. The information below is before inter-company eliminations.

### a) Summarised Balance Sheet

|                              | As at<br>December 31, 2014 | As at<br>December 31, 2013 |
|------------------------------|----------------------------|----------------------------|
| Current                      |                            |                            |
| Assets                       | \$ 136,611                 | \$ 27,675                  |
| Liabilities                  | (476,146)                  | (47,676)                   |
| Total Current net assets     | (339,535)                  | (20,001)                   |
| Non-Current                  |                            |                            |
| Assets                       | 18,482,243                 | 11,723,674                 |
| Liabilities                  | (51,600)                   | (23,000)                   |
| Total Non-current net assets | 18,430,643                 | 11,700,674                 |
| Net Assets                   | <b>\$ 18,091,108</b>       | <b>\$ 11,680,673</b>       |

### b) Summarised cash flows

|                                            | Year ended<br>December 31,<br>2014 | Year ended<br>December 31, 2013 |
|--------------------------------------------|------------------------------------|---------------------------------|
| Net cash flow from operating activities    | \$ (652)                           | \$ -                            |
| Net cash inflow from financing activities  | 4,775,052                          | 3,711,828                       |
| Net cash outflow from investing activities | (4,683,533)                        | (3,684,153)                     |
| Net cash increase in cash                  | 90,867                             | 27,675                          |
| Cash at the beginning of the period        | 27,675                             | -                               |
| Cash at the end of the period              | <b>\$ 118,543</b>                  | <b>\$ 27,675</b>                |

See Note 10a for transactions with non-controlling interests.

## 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.

## **18. FINANCIAL RISK MANAGEMENT (continued)**

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 certain 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 Common 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.

### *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 and the TRL 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 reported 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 \$156,301 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*

Pursuant to the TV Tower Agreement, upon completion of all other conditions precedent (Note 11 and Note 23), the Company must remit the Additional Consideration to TMST. It is not possible at this time to estimate the amount or timing of Additional Consideration payable. See details in Note 11 for Eligible Expenditure requirements to be met in order to maintain the Earn-in Option in good standing.

**PILOT GOLD INC.**  
**(An exploration stage company)**  
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Year ended December 31, 2014  
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**19. COMMITMENTS (continued)**

*Leases*

The Company has entered into operating leases for premises in the United States and Turkey. The lease terms are between two and four years; each lease is renewable at the end of the lease period at market rate. Office premises and other operating leases in Canada are paid to Oxygen, pursuant to the "Oxygen Agreement". Upon termination of the Oxygen Agreement, the Company is required to indemnify Oxygen for costs associated with those agreements or obligations that had been executed or incurred by Oxygen in connection with, or related to the services provided to the Company by Oxygen. These amounts, as pertaining to non-cancellable leases, are included in the table below. The aggregate lease expenditure related to Pilot Gold's office premises charged to the statement of loss for the year ended December 31, 2014 is \$282,436.

Total future minimum lease payments, under non-cancellable operating leases as at December 31, 2014 are as follows:

| Year  |                     |
|-------|---------------------|
| 2015  | \$ 164,981          |
| 2016  | 140,239             |
| 2017  | 140,239             |
| 2018  | 105,371             |
| 2019+ | 763,070             |
|       | <b>\$ 1,313,900</b> |

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

**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, 2014 and at December 31, 2013, Pilot Gold has three geographic locations: Canada, the USA, and Turkey. The total assets attributable to the geographic locations relate primarily to the exploration properties and deferred exploration expenditures held by the Company and its associates, and have been disclosed in Notes 10, 11 and 12. The net loss (gain) is distributed by geographic segment per the table below:

|        | <b>Year ended December 31,</b> |                     |
|--------|--------------------------------|---------------------|
|        | <b>2014</b>                    | <b>2013</b>         |
| Canada | \$ 5,591,447                   | \$ 5,664,654        |
| USA    | 1,102,761                      | 3,340,350           |
| Turkey | 14,890                         | 137,310             |
|        | <b>\$ 6,709,098</b>            | <b>\$ 9,142,314</b> |

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

|        | <b>Year ended December 31,</b> |                   |
|--------|--------------------------------|-------------------|
|        | <b>2014</b>                    | <b>2013</b>       |
| Canada | \$ 85,027                      | \$ 119,897        |
| USA    | 268,562                        | 364,119           |
| Turkey | 55,769                         | 70,089            |
|        | <b>\$ 409,358</b>              | <b>\$ 554,105</b> |

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

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

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(Expressed in United States Dollars, unless otherwise noted)

**21. SUPPLEMENTAL CASH FLOW INFORMATION**

Non-cash financing and investing transactions:

|                                                                                                        | <b>December 31,<br/>2014</b> | December 31,<br>2013  |
|--------------------------------------------------------------------------------------------------------|------------------------------|-----------------------|
| Non-cash financing and investing transactions                                                          |                              |                       |
| Issuances of Common Shares and warrants to Teck pursuant to the Earn-in Option (Note 11)               | \$ -                         | \$ (4,667,971)        |
| Issuance of Common Shares in partial consideration in mineral property acquisition (Note 10b)          | (6,178,884)                  | (1,329,659)           |
| Issuances of Common Shares in consideration for mineral property rights                                | -                            | (211,861)             |
| Non-cash recovery on mineral properties (Note 10)                                                      | 79,570                       | 33,024                |
| Change in fair value of financial instruments recognised in OCI                                        | 575,538                      | (19,634)              |
| Reclassification of losses from OCI into statement of loss                                             | 22,655                       | 131,620               |
| Stock based compensation within Exploration properties and deferred exploration expenditures (Note 15) | (217,825)                    | (106,835)             |
| Common Shares issuable upon exercise of Cadillac Options and Cadillac Warrants (Note 10b)              | 48,747                       | -                     |
|                                                                                                        | <b>\$ (5,670,199)</b>        | <b>\$ (6,171,316)</b> |

**22. RELATED PARTY TRANSACTIONS**

In addition to the following, the Company's related parties include its subsidiaries, and associates over which it exercises significant influence. Transactions with the Company's associates are described at Note 12.

*Oxygen Capital Corp*

Oxygen is a private company owned by three directors and one officer of the Company. Oxygen provides services to the Company and provides access to technical personnel, office rental, the use of the assets including Information Technology infrastructure and other administrative functions on an as-needed basis that would not necessarily otherwise be available to Pilot Gold at this stage of the Company's development. Oxygen does not charge a fee to the Company, allocating all expenses at cost. Related party transactions during the period total \$811,047 in expenditures, reflected in the Company's consolidated statement of loss and comprehensive loss and statement of financial position. As at December 31, 2014, Oxygen holds a refundable deposit of \$274,085 on behalf of the Company. Additionally, as at December 31, 2014 the Company held a payable to Oxygen of \$62,395. Amounts payable were settled subsequent to December 31, 2014. See also Note 19 for details on commitments related to lease arrangements.

*Compensation of key management personnel*

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

|                                                 | <b>December 31,<br/>2014</b> | December 31,<br>2013 |
|-------------------------------------------------|------------------------------|----------------------|
| Salaries and other short-term employee benefits | \$ 1,049,396                 | \$ 1,192,717         |
| Share-based payments                            | 850,810                      | 1,338,954            |
| <b>Total</b>                                    | <b>\$ 1,900,206</b>          | <b>\$ 2,531,671</b>  |

## **23. SUBSEQUENT EVENTS**

### *TV Tower*

On March 12, 2015 the Company received acknowledgement from Teck and TMST that the Earn-In Option, including the TV Tower Expenditure Requirement, had been completed and procedures have begun to legally transfer the additional 20% interest in Orta Truva to Pilot Gold. No Additional Consideration is payable.

Pursuant to the completion of the Earn-In Option, Pilot Gold will hold a 60% interest and has control of Orta Truva, and will recognize a non-controlling interest for the 40% interest held by TMST.

The transaction does not meet the definition of a business combination and will therefore be accounted for as an acquisition of an asset, principally TV Tower. The acquisition will be concurrent with the de-recognition of the Earn-in Option and the investment in associate corresponding to the Company's former 40% holding in Orta Truva.

The allocation of consideration to the total assets acquired and liabilities assumed has not yet been determined.

### *Stock based compensation*

On February 3, 2015, the Company granted 957,000 Options with an exercise price of C\$1.14 to employees and service providers of the Company. Employee options vest in thirds over three years, and expire after 5 years.

The Pilot Restricted Share Unit Plan (2014) (the "RSU Plan") was approved on May 12, 2014. Under the terms of the RSU Plan, the Board may, from time to time, grant to employees, officers and consultants to the Company, an irrevocable right to receive RSUs in such numbers and for such terms as may be determined by the Board.

The Pilot Deferred Share Unit Plan (2014) (the "DSU Plan") was approved on May 12, 2014. Under the terms of the DSU Plan, the Board may, from time to time grant directors of the Company, an irrevocable right to receive DSUs in such numbers and for such terms as may be determined by the Board. Upon redemption of a vested unit, at the time of the director's retirement from all positions with the Company (the "Separation Date"), the Company has the option to settle with (i) one Common Share of the Company or (ii) an amount in cash equal to fair value of the shares on the Separation Date determined as the weighted average of the trading price per Share on the TSX for the last five trading days ending on that date. The expense is recorded in the consolidated statement of comprehensive loss in share-based compensation and credited to equity under Contributed Surplus since the payment in cash or Common Shares is at the option of the Company.

RSU granted under the Option Plan to date are exercisable over three years. RSUs granted vest in thirds at the end of each year from the date of grant.

On February 3, 2015, the Company granted under the terms of the DSU Plan and RSU Plan respectively, 315,000 DSUs to directors of the Company and 721,910 RSUs to employees and service providers of the Company each with a fair value of \$1.14. Of the RSUs granted, 121,910 were part of the 2014 bonus issued to employees and service providers of the Company.