KLONDIKE GOLD CORP.

Consolidated Financial Statements

For The Years Ended
February 28, 2011 and 2010
(Expressed in Canadian Dollars)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Klondike Gold Corp.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Klondike Gold Corp, which comprise the consolidated balance sheets as at February 28, 2011 and 2010 and the consolidated statements of operations and comprehensive loss, shareholders' equity and cash flows for the years then ended, and 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 Canadian generally accepted accounting principles, 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.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Klondike Gold Corp. as at February 28, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada *"Morgan & Company"*

June 27, 2011 Chartered Accountants

Tel: (604) 687 – 5841
Fax: (604) 687 – 0075
www.morgan-cas.com

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P.O. Box 10007 Pacific Centre
Suite 1488 – 700 West Georgia Street
Vancouver, BC V7Y 1A1

KLONDIKE GOLD CORP.

CONSOLIDATED BALANCE SHEETS
(Expressed In Canadian dollars unless otherwise noted)

		February 28 2011		February 28 2010
ASSETS				
Current				
Cash	**$**	**687,887**	$	560,470
HST recoverable		**47,180**		34,535
Prepaid expenses		**34,800**		6,843
		769,867		601,848
Related Party Advances (Note 6(e))		**31,964**		30,377
Available-for-sale Investments (Note 4)		**27,480**		89,655
Reclamation Bonds		**10,500**		3,500
Mineral Property Costs (Note 5)		**5,629,760**		5,213,836
	$	**6,469,571**	$	5,939,216
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**453,389**	$	724,795
Accrued part XII.6 tax payable (Note 7(f))		**48,256**		101,053
Due to related parties (Note 6(a))		**679,682**		724,332
		1,181,327		1,550,180
SHAREHOLDERS' EQUITY				
Share Capital (Note 7)		**44,136,366**		42,453,474
Share Subscriptions		**-**		202,500
Contributed Surplus		**2,597,634**		2,298,834
Accumulated Other Comprehensive (Loss) Income		**(7,675)**		9,500
Deficit		**(41,438,081)**		(40,575,272)
		5,288,244		4,389,036
	$	**6,469,571**	$	5,939,216

Approved on behalf of the Board of Directors:

"***Richard Hughes***"
Director

"***Alan Campbell***"
Director

The accompanying notes are an integral part of these consolidated financial statements.

KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Expressed In Canadian dollars unless otherwise noted)

	For The Years Ended **February 28 2011**	 February 28 2010
Expenses		
Administration (Note 6(b))	$ **326,000**	594,000
Consulting (Note 6(d))	**64,420**	88,000
Interest and bank charges	**5,120**	586
Office and miscellaneous	**26,555**	9,669
Part XII.6 tax	**110,502**	14,001
Professional fees	**60,687**	41,253
Regulatory and stock transfer fees	**56,837**	37,675
Stock based compensation	**-**	164,300
Travel and promotion	**(35,125)**	36,455
Loss Before Other Income (Expenses) And Income Taxes	**(614,996)**	(985,939)
Other Income (Expenses)		
Net revenue from petroleum interest	**2,515**	1,115
Flow through investor obligation	**-**	(25,259)
Interest income	**-**	1,969
Loss on sale of investments	**(12,121)**	-
Mineral properties abandoned and written off (Note 5)	**(6,507)**	(296,409)
Impairment loss on available-for-sale investments	**-**	(98,895)
Loss Before Income Taxes	**(631,109)**	(1,403,418)
Future Income Tax (Expense) Recovery	**(231,700)**	468,900
Net Loss For The Year	**(862,809)**	(934,518)
Other Comprehensive Income (Loss)		
Net unrealized gains (losses) on available-for-sale investments	**(17,175)**	13,435
Reclassification of impairment loss on available-for-sale investments	**-**	98,895
Comprehensive Loss For The Year	**$ (879,984)**	$ (822,188)
Loss Per Share – Basic and diluted	**$ (0.06)**	$ (0.01)
Weighted Average Number Of Shares Outstanding – Basic and diluted	**15,760,881**	11,583,360

The accompanying notes are an integral part of these consolidated financial statements.

KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED FEBRUARY 28, 2011 AND 2010
(Expressed In Canadian dollars unless otherwise noted)

	Share Capital Number	Share Capital Amount	Share Subscriptions	Contributed Surplus	Accumulated Other Comprehensive Income/(Loss)	Treasury Shares	Deficit	Total
Balance, February 29, 2009	11,079,983	$ 41,565,074	$ -	$ 1,921,709	$ (102,830)	$ (26,250)	$ (39,614,504)	$ 3,743,199
Other comprehensive gain	-	-	-	-	112,330	-	-	112,330
Mineral property	12,667	7,750	-	-	-	-	-	7,750
Private placements	760,000	318,750	-	-	-	-	-	318,750
Private placements – flow-through	1,770,000	1,318,000	-	-	-	-	-	1,318,000
Share issue costs	-	(76,900)	-	-	-	-	-	(76,900)
Sale of treasury shares	-	-	-	2,525	-	26,250	(26,250)	2,525
Fair value of warrants extended	-	(210,300)	-	210,300	-	-	-	-
Stock based compensation	-	-	-	164,300	-	-	-	164,300
Tax benefits on flow-through shares	-	(468,900)	-	-	-	-	-	(468,900)
Share subscriptions receivable	-	-	202,500	-	-	-	-	202,500
Net loss for the year	-	-	-	-	-	-	(934,518)	(934,518)
Balance, February 28, 2010	13,622,650	42,453,474	202,500	2,298,834	9,500	-	(40,575,272)	4,389,036
Other comprehensive (loss)	-	-	-	-	(17,175)	-	-	(17,175)
Mineral property	3,333	1,750	-	-	-	-	-	1,750
Private placement	9,316,000	1,863,200	-	-	-	-	-	1,863,200
Private placements – flow-through	488,000	122,000	-	-	-	-	-	122,000
Share issue costs - cash	-	(236,958)	-	-	-	-	-	(236,958)
Share issue costs – agent compensation	-	(142,800)	-	142,800	-	-	-	-
Fair value of warrants extended	-	(156,000)	-	156,000	-	-	-	-
Tax benefits on flow-through shares	-	231,700	-	-	-	-	-	231,700
Share subscriptions	-	-	(202,500)	-	-	-	-	(202,500)
Net loss for the year	-	-	-	-	-	-	(862,809)	(862,809)
Balance, February 28, 2011	**23,429,983**	**$ 44,136,366**	**$ -**	**$ 2,597,634**	**$ (7,675)**	**$ -**	**$ (41,438,081)**	**$ 5,288,244**

The accompanying notes are an integral part of these consolidated financial statements.

KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed In Canadian dollars unless otherwise noted)

	For The Years Ended February 28 2011	February 28 2010
Cash Provided By (Used In):		
Operating Activities		
Net loss for the year	**$ (862,809)**	$ (934,518)
Adjust for items not requiring an outlay of cash:		
Stock based compensation	**-**	164,300
Loss on sale of investments	**12,121**	-
Impairment loss on available-for-sale investments	**-**	98,895
Mineral properties abandoned and written off	**6,507**	296,409
Future income tax expense (recovery)	**231,700**	(468,900)
	(612,481)	(843,814)
Changes in non-cash operating assets and liabilities:		
HST recoverable	**(12,645)**	222,495
Prepaid expenses	**(27,957)**	(2,756)
Related party advances	**(1,587)**	(30,377)
Accounts payable and accrued liabilities	**(385,438)**	(84,388)
Accrued Part XII.6 tax payable	**(52,797)**	(22,920)
Due to related parties	**(44,650)**	(75,421)
	(1,137,555)	(837,181)
Investing Activities		
Reclamation bonds	**(7,000)**	(3,500)
Mineral property costs	**(507,566)**	(380,511)
Proceeds from sale of investments	**32,879**	2,525
	(481,687)	(381,486)
Financing Activities		
Shares issued for cash	**1,983,617**	1,636,750
Share issue costs	**(236,958)**	(76,900)
Share subscriptions	**-**	202,500
	1,746,659	1,762,350
Increase In Cash	**127,417**	543,683
Cash – Beginning Of Year	**560,470**	16,787
Cash – End Of Year	**$ 687,887**	$ 560,470
Supplementary Cash Flow Information and Non-Cash Investing Activities:		
Interest paid	**$ 43,953**	**$** -
Taxes paid	**$ -**	**$** -
Shares Issued For Mineral Property Acquisition Costs	**$ 1,750**	**$** 7,750

The accompanying notes are an integral part of these consolidated financial statements.

1. NATURE OF OPERATIONS AND GOING CONCERN

Klondike Gold Corp. (the "Company") was incorporated under the laws of the Province of British Columbia, Canada. The Company is a public company listed on the TSX Venture Exchange (the "TSX.V"), trading under the "KG" symbol. The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for mineral properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. While the Company is expending its best efforts in this regard, the outcome of these matters cannot be predicted at this time. These consolidated financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

The Company incurred a net loss of $862,809 for the year ended February 28, 2011 (2010: $934,518) and had a working capital deficiency at February 28, 2011 of $411,460 (2010: $948,332) and a deficit of $41,438,081 (2010: $40,575,272). As at February 28, 2011 the Company did not have sufficient cash to meet minimum general and administration expenses for the year ending February 29, 2012. The Company also did not have sufficient cash to meet its flow-through share spending commitments as detailed in Note 7(f). The Company is in the process of acquiring, exploring and developing its resource properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for resource properties and related deferred exploration costs are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves, and upon future profitable production. The operations of the Company have primarily been funded by the issuance of common shares. Continued operations of the Company are dependent on the Company's ability to complete equity financing or generate profitable operations in the future. Management's plan in this regard is to secure additional funds through future equity financings, which may not be available or may not be available on reasonable terms.

Pursuant to the shareholders' approval at the special meeting of shareholders held on October 27, 2010, the Company has consolidated its common shares on a 15 to 1 basis. Effective November 3, 2010, the shares of the Company commenced trading on the TSX.V on a consolidated basis. All share references, number of options, number of warrants, and per share amounts included in these financial statements have been restated to reflect the consolidation and are presented on a post consolidation basis.

2. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its inactive subsidiary Klondike Reef Mines Ltd. (61.68% owned).

b) Variable Interest Entities

The CICA issued Accounting Guideline 15, “Consolidation of Variable Interest Entities”, to provide accounting guidance related to variable interest entities (“VIE”). A VIE is an entity in which equity investors do not have the characteristics of a “controlling financial interest” or there is not sufficient equity at risk for the entity to finance its activities without additional financial support. When a VIE is determined to exist, the guidance requires the VIE to be consolidated by the primary beneficiary. The Company has determined that it has no Variable Interest Entities.

c) Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenditures during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of assets, mineral property carrying values, flow-through obligations to investors, and determination of fair value for stock based compensation and transactions. Due to the inherent uncertainty involved with making such estimates, actual results reported in future years could differ from these estimates.

d) Measurement Uncertainty

Management’s capitalization of exploration and development costs and assumptions regarding the future recoverability of such costs are subject to significant measurement uncertainty. Management’s assessment of recoverability is based on, among other things, the Company’s estimate of current mineral reserves and resources which are supported by geological estimates, estimated gold and metal prices, and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future and this could materially affect the carrying value and the ultimate recoverability of the amounts recorded for mineral properties.

e) Financial Instruments and Risk Management

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification. Held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Financial Instruments and Risk Management (Continued)

The Company has classified cash and reclamation bonds as held for trading. Investments in marketable securities are classified as available for sale. Due from related parties is classified as loans and receivables. Accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities. Management did not identify any material embedded derivatives, which require separate recognition and measurement.

Disclosures about the inputs to financial instrument fair value measurements are made within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

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

Financial instruments are exposed to credit, liquidity and market risks. 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. Liquidity risks is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. Market risk is that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of price risk: currency risk, interest rate risk and other price risk.

Credit risk and liquidity risk on amounts due to creditors and amounts due from/to related parties were significant to the Company's balance sheet. The Company manages these risks by actively pursuing additional share capital issuances to settle its obligations in the normal course of its operating, investing and financing activities. The Company's ability to raise share capital is indirectly related to changing metal prices and the price of gold in particular. To mitigate this market risk, management of the Company actively pursues a diversification strategy with property holdings focusing on base metals as well as precious metals and diamonds.

f) Comprehensive Income

Handbook Section 1530 establishes standards for the reporting and display of comprehensive income and its components in the consolidated financial statements. Comprehensive income includes net earnings and other comprehensive income. Other comprehensive income includes holding gains on available for sale investments, gains and losses on certain derivative instruments and currency gains and losses relating to the translating financial statements of self-sustaining foreign operations.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

g) Foreign Currency Translation

Foreign currency transactions and balances are translated into the Canadian dollar reporting currency using the temporal method as follows:

i) Monetary items are translated at the rates prevailing at the balance sheet date;

ii) Non-monetary items are translated at historical rates;

iii) Revenues and expenses are translated at the average rates in effect during applicable accounting periods, except amortization, which is translated at historical rates;

iv) Gains and losses on foreign currency translation are reflected in the consolidated statements of operations.

h) Cash and Cash Equivalents

Cash consists of balances with banks and investments in financial instruments with maturities within three months held for the purpose of meeting short-term cash commitments rather than for investing or other purposes. The Company places its cash and cash investments with institutions of high-credit worthiness. The Company had no cash equivalents at either February 28, 2011 or 2010.

i) Mineral Properties

Mineral properties consist of exploration and mining concessions, options and contracts. Acquisition and leasehold costs and exploration costs are deferred and capitalized until such time as the property is put into production or the properties are disposed of either through sale or abandonment. If put into production, the deferred costs will be amortized over the life of the property, based on estimated economic reserves. Proceeds received from the sale of any interest in a property will first be credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the property and capitalized exploration costs are written off.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements. The Company is not aware of any disputed claims of title.

j) Available-for-Sale Investments

Available for sale investments represent investments in public companies and have been designated as available-for-sale investments. The investments are reported at fair value based on quoted market prices with unrealized gains or losses excluded from operations and reported as other comprehensive income or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Available-for-Sale Investments (Continued)

The Company evaluates the carrying value of investments for impairment on a quarterly basis. In its impairment analysis, the Company takes into consideration numerous criteria, including the duration and extent of any decline in fair value, the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value and recent events specific to the issuer or industry. If a decline in value is determined to be other-than-temporary, the carrying value of the security is written down to fair value in the statement of operations.

k) Long-lived Assets

Long-lived assets include mineral properties. The Company periodically evaluates the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized when estimated future cash flows resulting from the use of an asset and its eventual disposition is less than its carrying amount.

A mining enterprise in the exploration stage is not obliged to conclude that capitalized costs have been impaired due to the absence of a projected estimated future net cash flow from the mining enterprise. Mineral properties in the exploration stage do not have established mineral reserves and a basis for the preparation of a projection of the estimated future net cash flow from the properties does not exist. However, a mining enterprise is required to consider the conditions for impairment write-down. The conditions include unfavourable exploration results and significant unfavourable economic, legal, regulatory, environmental, political and other factors. In addition, management's development activities towards its planned principal operations are a key factor considered as part of the ongoing assessment of the recoverability of the carrying amount of mineral properties. Whenever events or changes in circumstances indicate that the carrying amount of a mineral property in the exploration stage may be impaired, the capitalized costs are written down to the estimated recoverable amount.

l) Asset Retirement Obligations

The Company follows the CICA Handbook Section 3110 "Asset Retirement Obligations". Under 3110, legal obligations associated with the future retirement of tangible long-lived assets are recorded as liabilities. The liabilities are recorded in the period management is able to establish a reasonable estimate of a fair value of the retirement obligation. The liabilities are calculated using the net present value of the estimated cash flows required to settle the obligation and are subject to accretion over time for changes in the fair value of the estimated obligation. A corresponding amount is capitalized to the related asset. Asset retirement costs are charged to earnings in a manner consistent with the depletion and amortization of the underlying assets. The liabilities are subject to accretion over time for changes in the fair value of the obligations. Management estimates may be subject to material adjustment as a result of changes in regulations, or changes in the means and extent of environmental remediation.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

l) Asset Retirement Obligations (Continued)

The operations of the Company may in the future be affected from time to time in varying degree by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable. The Company's policy is to meet or, if possible, surpass standards set by relevant legislation, by application of technically proven and economically feasible measures.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charges against earnings as incurred or capitalized and amortized depending on their future economic benefits. Estimated future removal and site restoration costs, when the ultimate liability is reasonably determinable, are charged to operations over the estimated remaining life of the related business operation, net of expected recoveries.

m) Share Capital

i) Non-monetary consideration - Agent's warrants, stock options and other equity instruments issued as purchase consideration in non-monetary transactions other than as consideration for mineral properties are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued is based on the trading price of those shares on the Toronto Venture Exchange (TSX.V) on the date of the agreement to issue shares as determined by the Board of Directors. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value using the residual method.

ii) Flow-through shares - Resource expenditure deductions for Canadian income tax purposes related to Canadian exploration and development activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. The Company follows the accounting prescribed by the CICA Emerging Issues Committee ("EIC") in EIC-146 "Flow-through Shares". On the date the expenditures are renounced, a future income tax liability and a corresponding reduction in the share capital is recorded. The future income tax liability is offset by available future income tax assets and the Company records the future income tax benefit in the statement of operations as a recovery of future income taxes otherwise payable.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Share Capital (Continued)

iii) Stock based compensation - The Company measures the cost of the service received for all stock options made to consultants, employees and directors based on an estimate of fair value at the date of grant. The Company uses the Black-Scholes option pricing model to estimate the fair value of each stock option at the date of grant. Stock options which vest immediately are recorded at the date of grant. Stock options that vest over time are recorded over the vesting period using the straight line method. Stock options issued to outside consultants that vest over time are valued at the grant date, subsequently re-valued on each vesting date, and expensed as services are rendered. Stock based compensation is recognized as expense or, if applicable, capitalized to mineral property costs with a corresponding increase in contributed surplus. On exercise of the stock option, consideration received and the estimated fair value previously recorded in contributed surplus is recorded as share capital.

iv) Share issuance costs - Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.

n) Income Taxes

Income taxes are calculated using the liability method of accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. The future income tax liabilities or assets are measured using tax rates and laws expected to apply in the periods that the temporary differences are expected to reverse. Valuation allowances are provided where (net) future income tax assets are not more likely than not to be realized.

o) Loss Per Share

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares issued and outstanding during the period. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Basic and diluted loss per share is equal as outstanding stock options and warrants were all anti-dilutive.

3. FUTURE ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

a) Consolidated Financial Statements

In January 2009, the CICA issued Handbook Section 1601, *Consolidated Financial Statements*, and Handbook Section 1602, *Non-Controlling Interests*, which together replace Handbook Section 1600, *Consolidated Financial Statements*. These two sections are equivalent to the corresponding provisions of International Accounting Standard 27, Consolidated and Separate Financial Statements (January 2008). Handbook Section 1602 applies to the accounting for non-controlling interests and transactions with non-controlling interest holders in consolidated financial statement. The new sections require that, for each business combination, the acquirer measure any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The new sections also require non-controlling interests to be presented as a separate component of shareholders' equity.

Under Handbook Section 1602, non-controlling interest income is not deducted in arriving at consolidated net income or other comprehensive income. Rather, net income and each component of other comprehensive income are allocated to the controlling and non-controlling interest based on relative ownership interests. These Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011, and should be adopted concurrently with Section 1582. The Company is currently assessing the future impact of these new sections on its consolidated financial statements.

b) Business Combinations

In January 2009, the CICA issued Handbook Section 1582, Business Combinations, which replaces Section 1581, Business Combinations, and provides the equivalent to International Financial Reporting Standards ("IFRS") 3R, Business Combinations (January 2008). The new section expands the definition of a business subject to an acquisition and establishes significant new guidance on the measurement of consideration given, and the recognition and measurement of assets acquired and liabilities assumed in a business combination. The new section requires that all business acquisitions be measured at the full fair value of the acquired entity at the acquisition date even if the business combination is achieved in stages, or if less than 100% of the equity interest in the acquiree is owned at the acquisition date.

The measurement of equity consideration given in a business combination will no longer be based on the average of the fair value of the shares a few days before and after the day the terms and conditions have been agreed to and the acquisition announced, but rather at the acquisition date. Subsequent changes in the fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price. Restructuring and other direct costs of a business combination are no longer considered part of the acquisition accounting. Instead, such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities.

(Expressed In Canadian dollars unless otherwise noted)

3. FUTURE ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (Continued)

b) Business Combinations (Continued)

The section applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2011. Earlier adoption is permitted. This new section will only have an impact on our consolidated financial statements for future acquisitions that will be made in periods subsequent to the date of adoption.

c) International Financial Reporting Standards ("IFRS")

Canada's Accounting Standards Board ratified a plan that will result in Canadian GAAP being converged with International Financial Reporting Standards ("IFRS") by 2011. Management has performed a preliminary analysis and highlighted areas where its current Canadian accounting practices differ from IFRS. No significant impact to the Company's financial statements is expected.

4. AVAILABLE-FOR-SALE INVESTMENTS

	As of February 28, 2011		As of February 28, 2010	
	Shares	**Fair Value**	Shares	Fair Value
Klondike Silver Corp.	**687,000**	**27,480**	787,000	51,155
Anglo Swiss Resources Inc.	**-**	**-**	100,000	38,500
		27,480		89,655

Klondike Silver Corp. ("KS")

Pursuant to an arrangement agreement dated July 2, 2005, 575,000 shares of KS, a company with directors in common, were received for providing a working capital loan (200,000 shares) and transferring a reclamation bond (375,000 units). The shares and units were recorded at their fair value of $0.20 per share/unit on the date of receipt. The units consisted of one common share and one share purchase warrant. The share purchase warrants were exercised at a price of $0.20 per share on January 21, 2008. KS was listed on the TSX.V on April 17, 2006.

As of February 28, 2010 the Company determined that its investment in KS had experienced an other-than-temporary decline in value and accordingly, recognized a loss of $98,895 in its statement of operations.

Anglo Swiss Resources Inc. ("ASW")

Pursuant to the Ron Gold option agreement dated September 24, 2009, 100,000 shares of ASW were received. The shares were recorded at $0.29 per share. The Company sold 100,000 shares of ASW for proceeds of $28,527.

KLONDIKE GOLD CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2011 AND 2010
(Expressed In Canadian dollars unless otherwise noted)

5. MINERAL PROPERTY COSTS

For the year ended February 28, 2011:

	Cranbrook Claims B.C.	Red Point B.C.	Sedex Group B.C.	Chapleau Claims Ontario (Note 7c)	Ontario Claims Ontario	Yukon Claims Yukon	Total 2011
Acquisition costs (net of option income)	$ (48,337)	$ -	$ -	$ -	$ 11,750	$ -	$ (36,587)
Exploration costs:							
Administration	-	-	-	2,304	-	-	2,304
Assaying	3,668	144	-	2,062	-	-	5,874
Drilling	256,095	-	-	-	-	-	256,095
Equipment rental	18,901	1,196	-	8,324	24,000	-	52,421
Field supplies	618	-	-	22	-	-	640
Field office	1,998	180	-	-	-	-	2,178
Geology and mapping	102,716	2,154	3,368	4,951	100	-	113,289
Property maintenance fees	23,885	353	413	815	-	-	25,466
Travel	638		113				751
Total current exploration costs	408,519	4,027	3,894	18,478	24,100	-	459,018
Total costs incurred during the period	360,182	4,027	3,894	18,478	35,850	-	422,431
Properties written off	(6,507)	-	-	-	-	-	(6,507)
Balance, Beginning of the year	1,376,575	909,075	939,983	1,558,496	397,063	32,644	5,213,836
Balance, End of the year	$ 1,730,250	$ 913,102	$ 943,877	$ 1,576,974	$ 432,913	$ 32,644	$ 5,629,760
Historical Costs:							
Acquisition	$ 15,181	$ 125,312	$ -	$ 449,652	$ 66,810	$ 26,000	$ 682,955
Exploration	1,715,069	787,790	943,877	1,127,322	366,103	6,644	4,946,805
	$ 1,730,250	$ 913,102	$ 943,877	$ 1,576,974	$ 432,913	$ 32,644	$ 5,629,760

KLONDIKE GOLD CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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(Expressed In Canadian dollars unless otherwise noted)

5. MINERAL PROPERTY COSTS (Continued)

For the year ended February 28, 2010:

	Cranbrook Claims B.C.	Red Point B.C.	Sedex Group B.C.	Chapleau Claims Ontario	Ontario Claims Ontario	Yukon Claims Yukon	Total 2010
Acquisition costs	$ 2,115	$ 22,500	$ -	$ 47,390	$ 25,250	$ -	$ 97,255
Exploration costs:							
Administration	-	-	-	14,508	-	-	14,508
Assaying	1,537	-	-	11,494	-	-	13,031
Drilling	354,538	-	-	-	-	-	354,538
Equipment rental	35,167	-	-	9,297	12,000	-	56,464
Field supplies	331	-	-	2,187	-	-	2,518
Field office	132	-	-	-	-	-	132
Geology and mapping	44,449	96	-	26,349	6,887	-	77,781
Property maintenance fees	12,318	40	-	-	-	-	12,358
Total current exploration costs	448,472	136	-	63,835	18,887	-	531,330
Total costs incurred during the year	450,587	22,636	-	111,225	44,137	-	628,585
Option income	(79,000)	-	-	(68,705)	-	-	(147,705)
Properties written off	(94,972)	-	(163,255)	-	(38,182)	-	(296,409)
Balance, Beginning of the year	1,099,960	886,439	1,103,238	1,515,976	391,108	32,644	5,029,365
Balance, End of the year	$ 1,376,575	$ 909,075	$ 939,983	$ 1,558,496	$ 397,063	$ 32,644	$ 5,213,836
Historical Costs:							
Acquisition	$ 63,518	$ 125,312	$ -	$ 449,652	$ 55,060	$ 26,000	$ 719,542
Exploration	1,313,057	783,763	939,983	1,108,844	342,003	6,644	4,494,294
	$ 1,376,575	$ 909,075	$ 939,983	$ 1,558,496	$ 397,063	$ 32,644	$ 5,213,836

5. MINERAL PROPERTY COSTS (Continued)

a) Certain of the claims are subject to royalty payments ranging from 5% to 10% of net profits and from ¼% to 4% of net smelter returns.

b) Cranbrook Claims, BC

i) These claims are a large non-contiguous group of claims acquired by staking and option agreements.

ii) Outstanding commitments were as follows:
Golden Egg 50,000 shares 90 days after commercial production.

iii) Ron Gold

The Company optioned its Ron Gold property to Anglo Swiss Resources Inc. wherein they can earn up to a 60% interest. The Ron Gold Property is grouped within the Cranbrook Claims. Consideration consists of $200,000 ($100,000 received), 100,000 shares (received), and incurring up to $650,000 in exploration expenditures by September 2013. This Agreement is subject to an underlying agreement with an arm's length party that comes with a 2% net smelter return royalty. Anglo may at any time purchase three-quarters (1.5%) of this royalty Interest from the original holder for $500,000. The Company also holds an additional royalty equal to 1% of net smelter returns. Anglo may at any time purchase 100% of this royalty from the Company for $500,000.

c) Red Point, B.C.

The Company entered into an option agreement for the Red Point property located in Trail Creek Mining Division, British Columbia consisting of 12 mineral claims. Consideration was $105,000 cash (paid), 160,000 shares (issued) and total exploration expenditures of $210,000 (completed).

d) Sedex Group, BC

These claims are a large non-contiguous group of claims acquired by option agreements from a company with related directors. The Company has completed its work commitment.

e) Chapleau Claims, Ontario

i) These claims are a large non-contiguous group of claims acquired by option agreement dated January 2, 2005 from companies with related directors to earn a 50% interest in existing and future claims in the Chapleau district of Ontario. The Company is required to pay a 15% administration fee to one of the related companies for operation of the property. The Company can earn its 50% interest by paying all acquisition costs, 50% of all exploration expenditures and the 15% administration fee.

(Expressed In Canadian dollars unless otherwise noted)

5. MINERAL PROPERTY COSTS (Continued)

e) Chapleau Claims, Ontario (Continued)

ii) The Company, and its joint venture partner, a company with directors in common, acquired mineral rights, exclusive of iron ore rights, on properties located in the Esquega and Corbiere townships in exchange for the assignment of title to three mineral claims situated in the Corbiere Townships, Ontario. Pursuant to the terms of the transfer of mineral rights to the Esquega property, the Company has assumed license fee and minimum exploration expenditure obligations of $3,835 and $15,340 per year respectively.

In addition, the Company and its joint venture partner shall each receive half of a 3% NSR, payable on any iron ore produced form the Chalice property. The assignee may at any time purchase 2% (2/3) of the royalty for $2,000,000.

The above noted transfer of mineral rights is a non-monetary transaction and no gain or loss was recognized because neither the fair value of the asset received nor the fair value of the asset given up was reliably measurable.

iii) Outstanding commitments were as follows:

Nicholson-Gratton	$250,000 cash (paid) and issue 75,000 shares (issued), with an additional $20,000 to be paid in either cash or shares. The agreement provides for a 3% NSR of which half may be purchased for $1,500,000.
Chapleau Licences	$500 annual licence fee for each licence acquired over the original four year term and $600 annual licence fee over the four year renewal term. All licence fees are subject to a 15% administration fee.

f) Ontario Claims, Ontario

These claims are a non-contiguous group of claims acquired by staking and option agreements. Outstanding commitments were as follows:

Matarrow Mine	$42,500 cash (paid), 170,000 shares (issued). There is a 2% NSR, of which half may be purchased for $1,000,000.
Akweskwa West	$55,000 cash ($15,000 paid subsequent to year end) and 450,000 shares (100,000 shares issued subsequent to year end), payable over four years. There is a 3% NSR, 1% of which may be purchased for $1,500,000 and a further 1% purchased for a further $1,500,000.

g) Yukon Claims, Yukon

These claims are a large non-contiguous group of claims acquired by staking and option agreements.

6. DUE FROM TO RELATED PARTIES AND RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed in the available-for-sale investments note and the mineral properties note, the Company entered into the following transactions and had the following balances payable with related parties. The transactions were recorded at the exchange amount agreed to by the related parties. Balances outstanding are non-interest bearing, unsecured and had no specific terms for collection or repayment.

a) Due to related parties comprised $247,796 (2010 - $123,787) payable to a company controlled by a director and $431,886 (2010 - $600,545) to companies with common directors.

b) Under an annual renewable agreement for services and cost recovery, the Company was charged administration fees of $316,000 (2010: $594,000) by a company controlled by a director. The same company also charged $12,232 (2010: $32,616) for automobile rental, and $9,000 (2010: $12,000) for core storage facilities. The rental and storage charges were capitalized to mineral properties. The agreement can be terminated by either party with 30 days notice. The services to the Company included supervision and administration of the financial requirements of the Company's business, producing quarterly accounts in accordance with public reporting requirements; communicating with various regulatory authorities to ensure compliance with all applicable laws; professional analysis and planning of exploration programs, assisting in the preparation of news releases, promotional materials and other documents required to be disseminated, responding to any requests for information and questions; providing secretarial services and legal consultation; office space, office furniture, boardroom facilities, photocopier, fax and such other amenities normally associated with office needs; and providing such other additional instructions and directions as required.

c) The Company was charged acquisition $Nil (2010: $47,390), exploration $16,174 (2010: $49,327), and administration costs of $2,304 (2010: $14,508), totalling $18,478 (2010: $111,225) by a company with common directors for work done on the Chapleau claims. The same company credited option income of $Nil (2010: $68,705).

d) The Company paid consulting fees of $56,750 (2010: $70,500) to directors and officers during the period.

e) The Company has amounts receivable from companies with directors in common in the amount of $31,964 (2010: $30,377) for expenses and shared mineral property costs. The advances are unsecured, non-interest bearing and have no fixed terms of repayment.

7. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.

(Expressed In Canadian dollars unless otherwise noted)

7. SHARE CAPITAL (Continued)

b) During the year ended February 28, 2011, the Company completed private placements for 9,804,000 units comprising one share and one half of one non-transferable share purchase warrant exercisable for a period of 36 months from the date of issue for total proceeds of $1,985,200. The private placements included 9,316,000 non flow-through units issued at $0.20 per unit and 488,000 flow-through units at $0.25 per unit. In conjunction with the placements the Company paid cash commissions on units brokered by its agents of $236,958 and issued 848,160 compensation warrants with a fair value of $142,800. 821,640 of the compensation warrants are excisable at $0.20 into a unit with each unit consisting of one common share and one half of one non-transferable warrant with each whole warrant exercisable at $0.25 into one common share for a period 24 months from the date of issue. 26,520 of the compensation warrants are excisable at $0.25 into a unit with each unit consisting of one common share and one half of one non-transferable warrant with each whole warrant exercisable at $0.30 into one common share for a period 24 months from the date of issue.

During the year ended February 28, 2010, the Company completed private placements for 2,530,000 units comprising one share and one share purchase warrant exercisable for a period of between 48 to 60 months from the date of issue for total proceeds of $1,636,750. The private placements include 670,000 non flow-through units issued at $0.375 per unit, 90,000 non flow-through units issued at $0.75 per unit, 63,333 flow-through units issued at $0.60 per unit and 1,706,667 flow-through units issued at $0.75 per unit.

c) A summary of the changes in warrants follows:

	Number of Warrants
Balance, February 29, 2009	3,113,212
Issued	2,530,000
Expired	(1,476,667)
Balance, February 28, 2010	4,166,545
Issued	5,750,160
Expired	(521,817)
Balance, February 28, 2011	9,394,888

(Expressed In Canadian dollars unless otherwise noted)

7. SHARE CAPITAL (Continued)

As at February 28, 2011 the following share purchase warrants were outstanding:

Total Number of Warrants	Exercise Prices	Expiry Date
1,066,667	$1.50	December 28, 2011
281,560	$0.20	November 25, 2012
130,500	$0.20	December 16, 2012
508,667	$1.50	December 27, 2012
409,580	$0.20	December 29, 2012
26,520	$0.25	December 29, 2012
606,060	$1.50	July 25, 2013
1,925,000	$0.25	November 25, 2013
1,542,500	$0.25	December 16, 2013
20,000	$1.50 / 2.25 / 3.00	December 28, 2013
244,000	$0.25	December 29, 2013
1,190,500	$0.25	December 29, 2013
710,000	$1.50 / 2.25 / 3.00	January 25, 2014
406,667	$1.50	September 30, 2014
326,667	$1.50	November 15, 2014
9,394,888		

On July 19, 2010, the Company extended the expiry date of 606,060 warrants from July 25, 2010 to July 25, 2013. On December 9, 2009, the Company extended the expiry date of 508,667 warrants from December 27, 2009 to December 27, 2012. The fair value for the warrant extensions amounted to $156,000 (2010 - $210,300).

The fair values for the compensation warrant issue and warrant extensions were estimated at the date of issue or change using the Black-Scholes option pricing model with the following assumptions:

	2011	2010
Average risk-free interest rate	**1.7% - 1.8%**	1.7%
Expected life – actual remaining life used	**2.0 – 3.0 years**	3 years
Expected volatility	**153% - 157%**	145%
Expected dividends	**Nil**	Nil

As at February 28, 2011 the weighted average remaining contractual life of the share purchase warrants was 2.42 years and the weighted average exercise price was $0.71 (2010: 2.45 years and $1.35).

(Expressed In Canadian dollars unless otherwise noted)

7. SHARE CAPITAL (Continued)

d) A summary of the changes in stock options follows:

	Number of Options
Balance, February 29, 2009	1,142,666
Granted	340,000
Cancelled or expired	(203,000)
Balance, February 28, 2010	1,279,666
Cancelled or expired	(184,671)
Balance, February, 2011	1,094,995

The following summarizes the stock options outstanding and exercisable as at February, 2011:

Exercise Price	Number of Options Outstanding And Exercisable	Remaining Contractual Life (Years)
$1.50	307,002	0.96
$1.50	125,667	1.29
$1.50	338,996	2.94
$1.50	323,330	5.93
	1,094,995	

As at February 29, 2011 the weighted average remaining contractual life of the options was 3.08 years and the weighted average exercise price was $1.50 (2010: 3.87 years and $1.50).

e) Stock Based Compensation

The Company has a stock option plan that provides for the issuance of options to its directors, officers, employees and consultants. The maximum number of outstanding options must be no more than 10% of the issued and outstanding shares at any point in time. All options have been granted with a term of five years and were fully vested on the grant date.

The fair value for options was estimated at the date of grant using a Black-Scholes option pricing model with the following assumptions:

	2011	2010
Average risk-free interest rate	**-**	2.8 %
Expected life	**-**	7 years
Expected volatility	**-**	112 %
Expected dividends	**-**	Nil

7. SHARE CAPITAL (Continued)

f) Flow-Through Expenditure Commitments

As at February 28, 2011, the Company paid $110,502 in Part XII.6 taxes and penalties payable to the Canada Revenue Agency payable on renounced, unspent exploration amounts of $890,486. Tax credits of $265,100 associated with the $890,486 and recorded in 2010 have been reversed effective February 28, 2011.

During the year ended February 28, 2011 the Company renounced $122,000 (2010 - $1,563,000). The tax credits of $35,400 (2010 - $468,900) associated with these expenditures have been recorded to recognize future tax benefits of these qualifying exploration expenditures. During 2010, the Company paid an investor $25,259 as compensation for spending $250,000 in renounced funds later than the Company and investor had agreed upon.

As at February 28, 2011, the Company was committed to spend approximately $89,198 (2010 $1,614,565) on qualifying Canadian exploration expenses.

8. MANAGEMENT OF CAPITAL

The Company manages its cash, common shares, stock options and warrants as capital (see Note 8). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company does not have any externally imposed capital requirements to which it is subject.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account.

(Expressed In Canadian dollars unless otherwise noted)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial assets and financial liabilities are measured on an ongoing basis at fair value or amortized cost. The disclosures in the notes to these financial statements describe how the categories of financial instruments are measured and how income and expenses, including fair value gains and losses, are recognized.

As at February 28, 2011, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	HELD FOR TRADING	LOANS AND RECEIVABLES/ AMORTIZED COST	TOTAL CARRYING VALUE	FAIR VALUE
Financial assets				
Cash	$ 687,887	$ -	$ 687,941	$ 687,887
	$ 687,887	$ -	$ 687,941	$ 687,887
Financial liabilities				
Accounts payable and accrued liabilities	$ -	$ (453,389)	$ (453,389)	
Accrued part XII.6 tax payable	-	(48,256)	(48,256)	
Accounts payable, related parties	-	(679,682)	(679,682)	
	$ -	$ (1,181,327)	$ (1,181,327)	

At February 28, 2011 and 2010, the Company's financial instruments which are measured at fair value on a recurring basis are cash and marketable securities which are classified as Level 1.

The Company has determined the estimated fair values of its financial instruments based on appropriate valuation methodologies; however, considerable judgement is required to develop certain of these estimates. The estimated fair value amounts can be materially affected by the use of different assumptions or methodologies.

The methods and assumptions used to estimate the fair value of financial instruments are described below:

The Company is exposed to potential loss from various risks including commodity price risk, interest rate risk, currency risk, credit risk and liquidity risk. Based on the Company's operations the liquidity risk and commodity price risk are considered the most significant.

The carrying values of the Company's accounts payable and accrued liabilities were a reasonable approximation of fair value.

a) Commodity Price Risk

The Company's ability to raise capital to fund exploration or development activities is subject to risk associated with fluctuations in the market prices of base and precious metals including gold, silver, zinc and lead, and the outlook for these metals. The Company does not have any hedging or other derivative contracts respecting its operations.

(Expressed In Canadian dollars unless otherwise noted)

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

a) Commodity Price Risk (Continued)

Market prices for metals historically have fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators. The Company has elected not to actively manage its commodity price risk, as the nature of Company's business is in exploration.

b) Liquidity Risk

The liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company manages its liquidity risk through careful management of its financial obligations in relation to its cash position. Using budgeting processes the Company manages its liquidity requirements based on expected cash flow to ensure there are adequate funds to meet the short term obligations during the year.

During the past year the Company has been able to maintain its liquidity position through private placements. However, the variable market conditions make it uncertain whether the Company can continue to raise adequate funds to meet its financial obligations.

10. INCOME TAXES

The recovery of income taxes shown in the statements of loss and deficit differs from the amounts obtained by applying statutory Federal and Provincial tax rates to the years ended February 2011 and 2010:

	2011	2010
Statutory tax rate	**29%**	30%
	$	$
Income tax recovery at statutory rates	**(178,000)**	(421,000)
Effect of change in tax rates	**-**	108,000
Non-deductible permanent differences	**25,000**	49,100
Tax benefits not recognized (unrecognized)	**(78,700)**	(205,000)
	(231,700)	468,900

The Company is permitted, under Canadian income tax legislation, to renounce flow-through related resource expenditures to investors in advance of the Company incurring the expenditure. In accordance with this legislation, the Company has twelve months following the effective date of renunciation to incur the expenditures. The Company begins incurring interest charges for unspent funds after one month and fees for unspent funds at the end of the calendar year following the effective date of renunciation, and until such time as funds are fully expended.

(Expressed In Canadian dollars unless otherwise noted)

10. INCOME TAXES (Continued)

The significant components of the Company's future income taxes are as follows:

	2011	2010
	$	$
Non-capital loss carryforwards	**1,407,000**	1,371,000
Capital loss carryforwards	**1,331,000**	1,371,000
Resource deductions	**1,277,000**	1,276,000
Share issue costs	**79,000**	39,000
	4,094,000	4,017,000
Valuation allowance for future income tax assets	**(4,094,000)**	(4,017,000)
	-	-

The Company has available non-capital tax losses of approximately $5,626,000 which may be carried forward and offset against future Canadian taxable income. The losses expire as follows:

Expiry Date	**$**
2015	602,000
2026	676,000
2027	616,000
2028	785,000
2029	1,392,000
2030	908,000
2031	647,000
	5,626,000

The Company has capital losses carried forward of $5,326,000 that may be carried forward indefinitely.

The Company has resource pools of approximately $10,739,000 available to offset future taxable income. The tax benefit of these amounts is available for carry-forward indefinitely.

11. SUBSEQUENT EVENT

The Company has arranged a settlement of debt to a related company. The $429,039 debt will be settled with $200,000 in cash or shares at current market price (based on a 15 day trading average) and 750,000 shares payable upon TSX.V approval. $50,000 was paid on June 13, 2011.