KLONDIKE GOLD CORP.

Condensed Consolidated Interim Financial Report

For The Nine Months Ended November 30, 2011 and 2010

(Expressed in Canadian Dollars)

(Unaudited)

NOTICE

No auditor review of the Interim Financial Statements

The accompanying unaudited condensed consolidated interim financial statements of Klondike Gold Corp. (“the Company”), for the nine months ended November 30, 2011, have been prepared by management and have not been the subject of a review by the Company’s external independent auditors.

KLONDIKE GOLD CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed In Canadian dollars)
(Unaudited)

		November 30 2011		February 28 2011 (Note 12)
ASSETS				
Current				
Cash	**$**	**53,281**	$	687,887
HST recoverable		**15,224**		47,180
Prepaid expenses		**14,745**		34,800
		83,250		769,867
Related Party Advances (Note 7(d))		**29,725**		31,964
Available-for-sale Investments (Note 5)		**24,911**		27,480
Reclamation Bonds		**10,500**		10,500
Exploration And Evaluation Assets (Note 6)		**4,107,241**		5,629,760
	$	**4,255,627**	$	6,469,571
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**406,692**	$	453,389
Accrued part XII.6 tax payable		**11,496**		48,256
Due to related parties (Note 7(a))		**119,956**		679,682
		538,144		1,181,327
Loan payable		**150,000**		-
Flow-through Share Premium Liability		**13,156**		16,836
		701,300		1,198,163
EQUITY				
Share Capital (Note 8)		**47,150,966**		47,031,966
Share Subscriptions		**170,000**		
Reserves		**2,576,640**		2,604,209
Deficit		**(46,343,279)**		(44,364,767)
		3,554,327		5,271,408
	$	**4,255,627**	$	6,469,571

Nature of operations and going concern (Note 1)
Subsequent events (Note 11)

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on January 30, 2012. They are signed on the Company's behalf by:

"***Richard Hughes***"
Director

"***Alan Campbell***"
Director

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

KLONDIKE GOLD CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
(Expressed In Canadian dollars)
(Unaudited)

	For Three Months Ended		For Nine Months Ended	
	November 30 2011	November 30 2010	**November 30 2011**	November 30 2010
Expenses				
Administration (Note 7(b))	**$ 75,000**	$ 18,000	**$ 278,000**	$ 245,000
Consulting and Wages (Note 7(d))	**21,799**	-	**101,631**	34,250
Interest and bank charges	**631**	1,016	**997**	1,305
Office miscellaneous	**3,962**	4,451	**10,937**	6,331
Part XII.6 tax	**171**	2,804	**594**	20,576
Professional fees	**13,768**	2,700	**56,207**	35,861
Regulatory and stock transfer fees	**19,148**	30,864	**28,216**	37,807
Travel and promotion	**8,420**	7,026	**40,418**	(28,869)
Loss Before Other Income (Expenses)	**(142,899)**	(66,861)	**(517,000)**	(352,277)
Net revenue from petroleum interests	**88**	796	**189**	1,544
Interest income	**54**	-	**54**	-
(Loss) on sale of investments	**-**	(2,148)	**-**	(12,121)
Gain on settlement of debt	**-**	-	**111,539**	-
Mineral properties written off (Note 6)	**-**	(542)	**(1,576,974)**	(1,928)
Loss Before Income Taxes	**(142,757)**	(68,755)	**(1,982,192)**	(364,782)
Future Income Tax Recovery	**353**	-	**3,680**	-
Net Loss For The Period	**(142,404)**	(68,755)	**(1,978,512)**	(364,782)
Other Comprehensive Income (Loss)				
Net unrealized gains (losses) on available-for-sale	**(8,333)**	17,240	**(27,569)**	(10,305)
Comprehensive Loss For The Period	**$ (150,737)**	$ (51,515)	**$ (2,006,081)**	$ (375,087)
Loss Per Share – Basic and diluted	**$ (0.00)**	$ (0.01)	**$ (0.01)**	$ (0.03)
Weighted Average Number Of Shares Outstanding	**24,279,983**	13,964,481	**23,819,801**	13,737,971

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

KLONDIKE GOLD CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY
(Expressed In Canadian dollars)
(Unaudited)

	SHARE CAPITAL					RESERVES									
	NUMBER		AMOUNT		SHARE SUBSCRIPTIONS		SHARE PREMIUM		SHARE-BASED PAYMENTS		AVAILABLE - FOR - SALE FINANCIAL ASSETS		DEFICIT		TOTAL
Balance, February 28, 2011	23,429,983	$	47,031,966	$	-	$	14,250	$	2,597,634	$	(7,675)	$	(44,364,767)	$	5,271,408
Other comprehensive loss	-		-		-		-		-		(27,569)		-		(27,569)
Exploration and Evaluation Assets	100,000		21,500		-		-		-		-		-		21,500
Debt settlement	750,000		97,500		-		-		-		-		-		97,500
Share subscriptions	-		-		170,000		-		-		-		-		170,000
Net loss for the period	-		-		-		-		-		-		(1,978,512)		(1,978,512)
Balance, November 30, 2011	**24,279,983**	**$**	**47,150,966**	**$**	**170,000**	**$**	**14,250**	**$**	**2,597,634**	**$**	**(35,244)**	**$**	**(46,343,279)**	**$**	**3,554,327**

	SHARE CAPITAL					RESERVES									
	NUMBER		AMOUNT		SHARE SUBSCRIPTIONS		SHARE PREMIUM		SHARE-BASED PAYMENTS		AVAILABLE- FOR - SALE FINANCIAL ASSETS		DEFICIT		TOTAL
Balance March 1, 2010	13,662,650	$	45,141,774	$	202,500	$	-	$	2,298,834	$	9,500	$	(43,277,822)	$	4,374,786
Other comprehensive loss	-		-		-		-		-		(10,305)		-		(10,305)
Private placement	3,850,000		770,000		-		-		-		-		-		770,000
Share issue costs	-		(56,312)		-		-		-		-		-		(56,312)
Exploration and Evaluation Assets	3,333		1,750		-		-		-		-		-		1,750
Fair value of warrants extended	-		(156,000)		-		-		156,000		-		-		-
Share subscriptions	-		-		(9,800)		-		-		-		-		(9,800)
Net loss for the period	-		-		-		-		-		-		(364,782)		(364,782)
Balance, November 30, 2010	13,665,983	$	45,701,212	$	192,700	$	-	$	2,454,834	$	(805)	$	(43,642,604)	$	4,705,337

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

KLONDIKE GOLD CORP.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(Expressed In Canadian dollars)
(Unaudited)

	FOR THE NINE MONTHS ENDED November 30 2011	November 30 2010 (Note 12)
Cash Provided By (Used In):		
Operating Activities		
Net loss for the period	**$ (1,978,512)**	$ (364,782)
Adjust for items not requiring an outlay of cash:		
Loss on sale of investments	**-**	12,121
Gain on debt settlement	**(111,539)**	-
Mineral properties abandoned and written off	**1,576,974**	1,928
Future income tax recovery	**(3,680)**	-
	(516,757)	(350,733)
Changes in non-cash operating assets and liabilities:		
HST recoverable	**31,956**	10,139
Prepaid expenses	**20,055**	8,791
Related party advances	**2,239**	(19,608)
Accounts payable and accrued liabilities	**(46,697)**	(131,947)
Accrued Part XII.6 tax payable	**(36,760)**	(10,694)
Due to related parties	**(350,687)**	44,982
Loan payable	**150,000**	-
	(746,651)	(449,070)
Investing Activities		
Mineral property costs	**(57,955)**	(237,043)
Proceeds from sale of investments	**-**	32,879
Reclamation bond	**-**	(7,000)
	(57,955)	(211,164)
Financing Activities		
Shares issued for cash	**-**	770,000
Share issue costs	**-**	(56,312)
Share subscriptions	**(170,000)**	(9,800)
	(170,000)	(703,888)
(Decrease) In Cash	**(634,606)**	43,654
Cash – Beginning Of Period	**687,887**	560,470
Cash – End Of Period	**$ 53,281**	$ 604,124
Supplementary Cash Flow Information and Non-Cash Investing Activities:		
Interest paid	**$ -**	**$** 15,000
Taxes paid	**$ -**	**$** -
Shares Issued For Mineral Property Acquisition Costs	**$ 21,500**	**$** 1,750

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Klondike Gold Corp. (the “Company”) was incorporated on August 23, 1978 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 address of the Company’s corporate office and principal place of business is Suite 711, 675 West Hastings Street, Vancouver, British Columbia, Canada.

Pursuant to the shareholders’ approval at the special meeting of shareholders held on October 27, 2010, the Company 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.

These statements have been prepared 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 $1,978,512 for the period ended November 30, 2011 (2010 - $364,782) and had a working capital deficiency at November 30, 2011 of $454,894 (February 28, 2011 - $411,460) and a deficit of $46,343,279 (February 28, 2011 - $44,364,767). 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.

2. BASIS OF PRESENTATION

a) Statement of Compliance

The financial statements of the Company for the year-ending February 29, 2012 will be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). These condensed consolidated interim financial statements for the nine month period ended November 30, 2011 have been prepared in accordance with IAS 34 Interim Financial Reporting, and as they are part of the Company's first IFRS annual reporting period, IFRS 1 First-time Adoption of International Financial Reporting Standards has been applied.

As these condensed consolidated interim financial statements are the Company's second financial statements prepared using IFRS, certain disclosures that are required to be included in annual financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual financial statements prepared in accordance with Canadian GAAP have been included in these financial statements for the comparative annual period. However, these condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company's February 28, 2011 annual financial statements and the May 31, 2011 first quarter financial statements. The explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 12.

b) Basis of Measurement

These condensed consolidated interim financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these condensed consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

c) Foreign Currencies

The presentation currency of the Company and the functional currency of the Company and its subsidiary is the Canadian dollar.

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

2. BASIS OF PRESENTATION (Continued)

d) Significant Accounting Judgments and Estimates

The preparation of these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- The estimated flow-through obligations to investors included in accrued liabilities;
- The carrying value and recoverable amount of exploration and evaluation assets;
- The inputs used in accounting for share-based compensation expense in the statements of operations and comprehensive loss;
- The inputs used in assessing the recoverability of deferred income tax assets to the extent that the deductable temporary differences will reverse in the foreseeable future and that the company will have future taxable income; and
- Management’s assumption that there are currently no decommissioning liabilities is based on the facts and circumstances that exist during the period.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are expected to be adopted for the year-ending February 29, 2012 and have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS balance sheet at March 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

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). All intercompany balances and transactions are eliminated upon consolidation.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

b) 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.

c) Financial Instruments and Risk Management

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of operations and comprehensive loss.

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statements of operations and comprehensive loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the statements of operations and comprehensive loss.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Financial Instruments and Risk Management (Continued)

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

Other financial liabilities - This category includes loan payable, amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

The Company has classified cash and reclamation bonds as fair value through profit or loss financial assets. Investments in marketable securities are classified as available for sale. Related party advances are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Financial Instruments and Risk Management (Continued)

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.

d) Comprehensive Income

Other comprehensive income represents the change in net equity for the period that arises from unrealized gains and losses on available-for-sale financial instruments. Amounts included in other comprehensive income are shown net of tax. Cumulative changes in other comprehensive income are included in accumulated other comprehensive income which is presented as a category in shareholders' equity.

e) 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 as at November 30, 2011 and 2010.

f) Exploration and Evaluation Assets

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in profit or loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, which management has determined to be indicated by a feasibility study, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Exploration and Evaluation Assets (Continued)

It is management's judgement that none of the Company's exploration and evaluation assets have reached the development stage and as a result are all considered to be exploration and evaluation assets.

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.

g) 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.

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.

h) Impairment of Non-Financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets, including exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has one cash-generating unit for which impairment testing is performed.

An impairment loss is recognized in the statement of operations, except to the extent they reverse gains previously recognized in other comprehensive income or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Decommissioning Liabilities

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

j) 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 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

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-though share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as flow-through expenditure commitments in Note 8(g).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Share Capital (Continued)

ii) Flow-through shares (Continued)

The Company may also be subject to a Part XII.6 tax on flow-through proceeds, renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

iii) Share-based payments

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. 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 is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

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.

k) Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Income Taxes (Continued)

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

l) 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.

4. FUTURE ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED

The following standards and interpretations have not been in effect as they will only be applied for the first time in future periods. They may result in consequential changes to the accounting policies and other note disclosures. The Company has not yet assessed the impacts of the standards or determined whether it will adopt the standards early.

IFRS 9 – Financial Instruments - IFRS 9 establishes the requirements for recognizing and measuring financial assets and financial liabilities. This new standard is effective January 1, 2013 with earlier application permitted.

(Expressed in Canadian dollars)

4. FUTURE ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED (Continued)

IFRS 10 - Consolidated Financial Statements - IFRS 10 supersedes IAS 27: Consolidated and Separate Financial Statements and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This new standard is effective January 1, 2013 with earlier application permitted.

IFRS 11 - Joint Arrangements - IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and supersedes IAS 31 : Interests in Joint Ventures and SIC 13: Jointly Controlled Entities - Non- Monetary Contributions by Venturers. This new standard is effective January 1, 2013 with earlier application permitted.

IFRS 12 - Disclosure of Interests in Other Entities - IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. This new standard is effective January 1, 2013 with earlier application permitted.

IAS 12 - Income Taxes - IAS 12 addresses the recovery of underlying assets. This amendment is effective January 1, 2012 with earlier application permitted.

IAS 27 - Separate Financial Statements - IAS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9. This new standard is effective January 1, 2013 with earlier application permitted.

IAS 28 - Investments in Associates and Joint Ventures - IAS 28 prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This amendment is effective January 1, 2013 with earlier application permitted.

5. AVAILABLE-FOR-SALE INVESTMENTS

	As of November 30, 2011		As of February 28, 2011	
	Shares	**Fair Value**	Shares	Fair Value
Klondike Silver Corp.	**34,350**	**8,244**	687,000	27,480
Anglo Swiss	**333,000**	**16,667**	-	-
		24,911		27,480

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

(Expressed in Canadian dollars)

6. EXPLORATION AND EVALUATION ASSETS

For the period ended November 30, 2011:

	Cranbrook Claims B.C.	Red Point B.C.	Sedex Group B.C.	Hope Claims B.C.	Chapleau Claims Ontario	Ontario Claims Ontario	Yukon Claims Yukon	Total
Acquisition costs (net of option income)	$ (50,000)	$ -	$ -	$ 7,670	$ -	$ 48,100	$ -	$ 5,770
Exploration costs:								
Equipment rental	378	-	-	-	-	-	-	378
Field office	488	-	-	-	-	-	-	488
Geology and mapping	15,342	600	-	-	-	1,329	-	17,271
Property maintenance fees	19,940	-	8,180	2,151	-	-	-	30,269
Travel	279	-	-	-	-	-	-	279
Total current exploration costs	36,425	600	8,180	2,151	-	1,329	-	48,685
Total costs incurred during the period	(13,575)	600	8,180	9,821	-	49,429	-	54,455
Properties written off	-	-	-	-	(1,576,974)	-	-	(1,576,974)
Balance, February 28, 2011	1,730,250	913,102	943,877	-	1,576,974	432,913	32,644	5,629,760
Balance, November 30, 2011	$1,716,675	$ 913,702	$ 952,057	$ 9,821	$ -	$ 482,342	$ 32,644	$ 4,107,241
Historical Costs:								
Acquisition	$ (34,819)	$ 125,312	$ -	$ 7,670	$ -	$ 114,910	$ 26,000	$ 239,073
Exploration	1,751,494	788,390	952,057	2,151	-	367,432	6,644	3,868,168
	$1,716,675	$ 913,702	$ 952,057	$ 9,821	$ -	$ 482,342	$ 32,644	$ 4,107,241

(Expressed in Canadian dollars)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

For the year ended February 28, 2011:

	Cranbrook Claims B.C.	Red Point B.C.	Sedex Group B.C.	Chapleau Claims Ontario	Ontario Claims Ontario	Yukon Claims Yukon	Total Total
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, March 1, 2010	1,376,575	909,075	939,983	1,558,496	397,063	32,644	5,213,836
Balance, February 28, 2011	$ 1,730,250	$ 913,102	$ 943,877	$ 1,567,974	$ 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

6. EXPLORATION AND EVALUATION ASSETS (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, B.C.

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, B.C.

The Company optioned its Ron Gold property to Anglo Swiss Resources Inc in September 2009 and amended the agreement in September 2011, wherein they can earn up to a 60% interest. The Ron Gold Property is grouped within the Cranbrook Claims. Amended consideration consists of $175,000 ($125,000 received), 433,333 shares (received), and incurring up to $650,000 in exploration expenditures by September 2014. 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, B.C.

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) Hope Claims, B.C.

These claims located West of Trail, BC have been staked by the Company.

f) Chapleau Claims, Ontario

i) The claims acquired by option agreement dated January 2, 2005 from companies with related directors to earn a 50% interest in the Chapleau district of Ontario were written off as no further work is planned.

(Expressed in Canadian dollars)

6. EXPLORATION AND EVALUATION ASSETS (Continued)

g) 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) and 450,000 shares (100,000 shares issued), 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.

h) Yukon Claims, Yukon

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

The Company and Klondike Star Mineral Corp. have entered into an agreement with Lonestar Gold Corp. ("Lonestar") whereby Lonestar has the option to acquire up to a 100% interest in certain quartz claims and crown grants in the Dawson Mining District, Yukon Territory. The aggregate consideration Lonestar will pay if the option is fully exercised will amount to $25,750,000 in property expenditures and the issuance of $25,750,000 in common shares in the capital of Lonestar.

(Expressed in Canadian dollars)

7. RELATED PARTY BALANCES AND TRANSACTIONS

Key Management Compensation

	NINE MONTHS ENDED NOVEMBER 30	
	2011	2010
Wages and consulting fees	**$ 80,465**	$ 31,500

Payments to key management personnel including the President and Chief Financial Officer, are wages and consulting fees and are directly related to their position in the organization.

Other 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 $118,631 (February 28, 2011- $247,796) payable to a company controlled by a director and $1,325 (February 28, 2011- $431,886) to companies with common directors.

b) Under an annual renewable agreement for services and cost recovery, the Company was charged administration fees of $258,000 (November 30, 2010 - $245,000) by a company controlled by a director. The same company also charged $Nil (November 30, 2011 - $18,348) for automobile rental, and $Nil (November 30, 2011 - $9,000) 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 has amounts receivable from companies with directors in common in the amount of $29,725 (February 28, 2011- $31,964) for expenses and shared mineral property costs. The advances are unsecured, non-interest bearing and have no fixed terms of repayment.

(Expressed in Canadian dollars)

8. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.

b) During the period ended November 30, 2011, no private placements were completed.

c) 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.

d) A summary of the changes in warrants follows:

	NUMBER OF WARRANTS		WEIGHTED AVERAGE EXERCISE PRICE
Balance, March 1, 2010	4,166,545	$	1.37
Issued	5,750,160		0.25
Expired	(521,817)		1.50
Balance, February 28, 2011 and November 30, 2011	**9,394,888**	**$**	**0.73**

(Expressed in Canadian dollars)

8. SHARE CAPITAL (Continued)

As at November 30, 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
1,190,500	$0.25	December 29, 2013
244,000	$0.30	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. The fair value for the warrant extensions amounted to $156,000.
** Expired unexercised subsequently.

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:

	November 30 2011	FEBRUARY 28 2011
Average risk-free interest rate	**-**	1.7% - 1.8%
Expected life – actual remaining life used	**-**	2.0 – 3.0 years
Expected volatility	**-**	153% - 157%
Expected dividends	**Nil**	Nil

As at November 30, 2011 the weighted average remaining contractual life of the share purchase warrants was 1.70 years and the weighted average exercise price was $0.73 (February 28, 2011 - 2.42 years and $0.71).

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

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, March 1, 2010	1,279,666	$ 1.50
Cancelled or expired	(184,671)	1.50
Balance, February 28, 2011 and November 30, 2011	**1,094,995**	**$ 1.50**

(Expressed in Canadian dollars)

8. SHARE CAPITAL (Continued)

The following summarizes the stock options outstanding and exercisable as at November 30, 2011:

EXERCISE PRICE	NUMBER OF OPTIONS OUTSTANDING AND EXERCISABLE	REMAINING CONTRACTUAL LIFE (YEARS)	EXPIRY DATE
$1.50	307,002	0.46	February 14, 2012
$1.50	125,667	0.79	June 14, 2012
$1.50	338,996	2.43	February 4, 2014
$1.50	323,330	5.43	February 2, 2017
	1,094,995		

As at November 30, 2011 the weighted average remaining contractual life of the options was 2.33 years and the weighted average exercise price was $1.50 (February 28, 2011 - 3.08 years and $1.50).

f) Share-based Payments

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 or seven years and were fully vested on the grant date.

g) Flow-Through Expenditure Commitments

As at November 30, 2011, the Company is committed to incur, on a best efforts basis, $127,000 (February 28, 2011 - $127,000) in qualifying resource expenditures pursuant to private placements for which flow-through proceeds have been received. As at November 30, 2011, the Company has incurred $56,218 in qualifying resource expenditures (February 28, 2011 - $37,802), and the Company must incur $70,782 (February 28, 2011 - $89,198) in qualifying resource expenditures as follows:

On or Before	November 30, 2011	February 28, 2011
December 31, 2011	**$ 65,782**	$ 84,198
January 31, 2012	**5,000**	5,000
Total	**$ 70,782**	$ 89,198

If the Company does not spend these funds in compliance with the Government of Canada flow-through regulations, it may be subject to litigation from various counterparties. The Company intends to fulfill its flow-through commitments within the given time constraints.

(Expressed in Canadian dollars)

9. MANAGEMENT OF CAPITAL

The Company manages its cash, common shares, stock options and warrants as capital. 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.

10. 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 November 30, 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	AVAILABLE -FOR-SALE	TOTAL CARRYING VALUE	FAIR VALUE
Financial assets					
Cash	$ 53,281	$ -	$ -	$ 53,281	$ 53,281
Available-for-sale Investments	-	-	24,911	24,911	24,911
Reclamation Bonds	10,500	-	-	10,500	10,500
	$ 63,781	$ -	$ 24,911	$ 88,692	$ 88,692
Financial liabilities					
Accounts payable and accrued liabilities	$ -	$ (406,692)	$ -	$ (406,692)	$ -
Accrued part XII.6 tax payable	-	(11,496)	-	(11,496)	-
Accounts payable, related parties	-	(119,956)	-	(119,956)	-
	$ -	$ (538,144)	$ -	$ (538,144)	$ -

At November 30, 2011 and February 28, 2011, 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.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

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.

a) 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.

11. SUBSEQUENT EVENTS

Subsequent to the period ended November 30, 2011:

a) The Company completed an exempt take-over bid to acquire a majority interest in the shares of Lonestar Gold Inc. (“Lonestar”) a privately held British Columbia company. The Company invited the shareholders of Lonestar to tender their shares for purchase through the issuance of three Klondike Gold shares for each single share of Lonestar tendered and accepted by the Company. The Company issued 20,709,999 of it’s shares for 6,903,333 shares of Lonestar. The Company's shareholdings in Lonestar are now approximately 80%.

b) The Company closed a first tranche of a private placement announced to raise up to $2,750,000, by issuing 14,000,000 shares at a price of $0.10 per share for gross proceeds of $1,400,000. 8,250,000 of the shares were flow-through. $27,315 in share issued costs were paid.

c) The Company closed a private placement by issuing 4,980,000 common shares at a price of $0.10 per share for gross proceeds of $498,000. 2,550,000 of the shares were flow-through shares. $14,100 in share issue costs were paid.

12. FIRST TIME ADOPTION OF IFRS

The Company’s financial statements for the year ending February 29, 2012 are the first annual financial statements that will be prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was March 1, 2010 (the “Transition Date”). IFRS 1 requires first time adopters to retrospectively apply all the effective IFRS standards as of the reporting date of February 29, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption. Prior to the transition to IFRS, the Company prepared its financial statements in accordance with Canadian GAAP.

In preparing the Company’s opening IFRS financial statements, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

The Company has applied the following exemptions to its opening statement of financial position dated March 1, 2010:

a) Business Combinations

IFRS1 indicates that a first-time adopter may elect not to apply IFRS 3 *‘Business Combinations’* retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has taken advantage of this election and will apply IFRS 3 to business combinations that occur on or after March 1, 2010. There is no adjustment required to the March 1, 2010 statement of financial position on the transition date.

12. FIRST TIME ADOPTION OF IFRS (Continued)

b) Share-based Payments

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 *Share-based Payments* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to March 1, 2010.

c) Consolidated and Separate Financial Statements

In accordance with IFRS 1, if a company elects to apply IFRS 3 *'Business Combinations'* retrospectively, IAS 27 Consolidated and Separate Financial Statements must also be applied retrospectively. As the Company elected to apply IFRS 3 prospectively, the Company has also elected to apply IAS 27 prospectively.

d) Decommissioning Liabilities

The company has elected to apply the exemption from full retrospective application of decommissioning provisions as allowed under IFRS 1. As a result, the Company has re-measured the provisions at March 1, 2010 under IAS 37 Provisions, Contingent Liabilities and Contingent Assets and determined that there is no adjustment required to the March 1, 2010 statement of financial position on the transition date.

e) Financial Instruments

The Company has elected to designate its cash and cash equivalents as FVTPL upon initial recognition in accordance with an investment strategy that management uses to evaluate performance on a fair value basis. This designation had no impact on the results and financial position of the Company as these financial assets were classified as held-for-trading under Canadian GAAP and recorded at fair value.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening statement of financial position dated March 1, 2010:

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of March 1, 2010 are consistent with its GAAP estimates for the same date.

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, some differences exist in certain matters of recognition, measurement and disclosure. The adoption of IFRS has resulted in reclassifications in the Company's reported financial position as at March 1, 2010, November 30, 2010 and February 28, 2011. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statements of operations and comprehensive loss and cash flows for November 30, 2010 have been reconciled to IFRS, with the resulting differences explained, below.

12. FIRST TIME ADOPTION OF IFRS (Continued)

Explanation of Reconciling Differences

a) Flow-Through Shares

Under IFRS, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-though feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company recognizes a deferred tax liability for the amount of the tax deduction renounced to the shareholders and the premium liability is reversed. The reversal of the premium liability and the deferred tax liability are recognized as tax recoveries to the extent that suitable deferred tax assets are available. Under Canadian GAAP, the Company recorded the tax cost of expenditures renounced to subscribers on the date the deductions were renounced to the subscribers. Share capital was reduced and future income tax liabilities were increased by the tax cost of expenditures renounced to the subscribers, except that the amount was recognized as a tax recovery to the extent that suitable future tax assets were available.

As a result, for issuances of flow-through shares for which expenditures have been incurred, share capital was increased by $2,688,300 at the date of transition (November 30, 2010 - $2,688,300) and deficit was increased by $2,702,550 on the date of transition (November 30, 2010 - $2,702,550). The effect on net loss for the nine months ended November 30, 2010 was $Nil and a recovery of $224,136 for the year ended February 28, 2011.

Where flow-through shares were issued at a premium but expenditures were not incurred by the end of the reporting period, a liability is shown in “Flow-through Share Premium Liability”. This resulted in a liability of $14,250 on the date of transition (November 30, 2010 - $14,250).

b) Reclassification Within Equity

IFRS requires an entity to present for each component of equity, reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. The Company examined its “Contributed Surplus” and “Accumulated Other Comprehensive (Income) Loss” accounts and concluded that $2,454,834 (Transition Date - $2,298,834; February 28, 2011 - $2,597,634) relates to “Share-based Payments Reserve” and loss of $805 (Transition Date – $6,240; February 28, 2011 – $7,675) relates to “Available-For-Sale Financial Assets Reserve”. The amounts in “Contributed Surplus” and “Accumulated Other Comprehensive (Income) Loss” have been reclassified to “Reserves” in the statement of financial position. The “Share-based Payments Reserve” and the “Available-For-Sale Financial Assets Reserve” is separately disclosed on the statement of changes in equity.

c) The IFRS transition adjustments noted above did not have a material impact on the cash flows statements.

(Expressed in Canadian dollars)

12. FIRST TIME ADOPTION OF IFRS (Continued)

Reconciliation of Statements of Financial Position

		NOVEMBER 30, 2010		
	NOTE	CANADIAN GAAP	EFFECT OF TRANSITION TO IFRS	IFRS
TOTAL ASSETS		$ 6,172,108	$ -	$ 6,172,108
LIABILITIES				
Current liabilities		1,452,521	-	1,452,521
Flow-through share premium liability		-	14,250	14,250
		1,452,521	14,250	1,466,771
SHAREHOLDERS' EQUITY				
Share Capital	a	43,012,912	2,688,300	45,701,212
Share Subscriptions		192,700	-	192,700
Contributed surplus	b	2,454,834	(2,454,834)	-
Accumulated Other Comprehensive Income (Loss)	b	(805)	805	-
Reserves	b	-	2,454,029	2,454,029
Deficit	a	(40,940,054)	(2,702,550)	(43,642,604)
		4,719,587	(14,250)	4,705,337
TOTAL LIABILITIES AND EQUITY		$ 6,172,108	$ -	$ 6,172,108

Reconciliation of Statements of Operations and Comprehensive Loss

	NINE MONTHS ENDED NOVEMBER 30, 2010		
	CANADIAN GAAP	EFFECT OF TRANSITION TO IFRS	IFRS
Net Comprehensive Loss For The Period	$ (375,087)	$ -	$ (375,087)

Reconciliation of Statements of Operations and Comprehensive Loss

	THREE MONTHS ENDED NOVEMBER 30, 2010		
	CANADIAN GAAP	EFFECT OF TRANSITION TO IFRS	IFRS
Net Comprehensive Loss For The Period	$ (51,515)	$ -	$ (51,515)