KLONDIKE GOLD CORP.

Consolidated Financial Statements

For Years Ended February 28, 2013 and February 29, 2012

(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 statements of financial position as at February 28, 2013 and February 29, 2012, and the consolidated statements of comprehensive loss, of changes in equity and of 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 International Financial Reporting Standards as issued by the International Accounting Standards Board, 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 and the standards of the Public Company Accounting Oversight Board (United States). 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, the consolidated financial statements present fairly, in all material respects, the financial position of Klondike Gold Corp. as at February 28, 2013 and February 29, 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 casts substantial doubt about the Company's ability to continue as a going concern.

Vancouver, Canada *"Morgan LLP"*

June 27, 2013 Chartered Accountants

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KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed In Canadian dollars)

	February 28 2013	February 29 2012
ASSETS		
Current		
Cash	**$ 1,096,304**	$ 3,924,521
Restricted cash (Note 5)	**133,500**	-
HST recoverable	**32,078**	38,607
Amounts receivable	**27,105**	-
Prepaid expenses and deposits	**58,897**	52,481
	1,347,884	4,015,609
Related Party Advances (Note 10 a))	**61,025**	64,725
Available-for-sale Investments (Note 6)	**12,112**	34,052
Reclamation Bonds	**10,500**	10,500
Equipment (Note 7)	**277,680**	52,796
Exploration And Evaluation Assets (Note 8)	**8,465,908**	5,816,303
Investment In Joint Venture (Note 9)	**126,657**	-
	$ 10,301,766	$ 9,993,985
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 222,592**	$ 496,263
Due to related parties (Note 10 c))	**75,871**	138,949
Loan payable to related party (Note 17)	**-**	150,000
Flow-through share premium liability	**46,700**	-
	345,163	785,212
EQUITY		
Share Capital (Note 11)	**54,852,331**	52,830,031
Share Subscriptions Receivable (Note 11)	**(396,000)**	-
Reserves	**3,192,676**	2,598,936
Deficit	**(48,219,999)**	(46,753,277)
Shareholders' Equity	**9,429,008**	8,675,690
Non-controlling Interest	**527,595**	533,083
Total Equity	**9,956,603**	9,208,773
	$ 10,301,766	$ 9,939,985

Going Concern (Note 1)

These consolidated financial statements were authorized for issue by the Board of Directors on June 27, 2013. They are signed on the Company's behalf by:

"Erich Rauguth"	*"Alan Campbell"*
Director	Director

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

KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed In Canadian dollars)

	FOR THE YEARS ENDED February 28 2013	February 29 2012
Expenses		
Administration (Note 10 b))	**$ 303,552**	$ 356,461
Consulting and Wages (Note 10 b))	**391,229**	248,870
Depreciation	**63,789**	2,429
Office and miscellaneous	**18,553**	7,248
Part XII.6 tax	**-**	8,729
Professional fees	**148,244**	83,295
Regulatory and stock transfer fees	**38,798**	59,960
Stock based compensation	**613,280**	-
Travel and promotion	**390,841**	97,617
Loss Before Other Income (Expenses)	**(1,968,286)**	(864,609)
Other Income (Expenses)		
Miscellaneous mining income (Note 9)	**3,194**	216
Interest income	**979**	579
Foreign exchange gain	**6,783**	-
Gain on settlement of debt	**38,334**	111,539
Mineral properties written off (Note 8)	**(129,034)**	(1,647,380)
Share of loss in joint venture investment (Note 9)	**(47,688)**	-
De-recognition of current liabilities (Note 13, 17)	**271,008**	-
Reversal of flow-through investor obligation	**340,000**	-
Loss Before Income Taxes	**(1,484,710)**	(2,399,655)
Deferred Income Taxes	**12,500**	3,680
Net Loss For The Year	**(1,472,210)**	(2,395,975)
Other Comprehensive Loss		
Unrealized loss on available-for-sale investments	**(21,940)**	(18,428)
Comprehensive Loss For The Year	**$ (1,494,150)**	$ (2,414,403)
Net Loss Attributable To:		
Shareholders	**$ (1,466,722)**	$ (2,388,510)
Non-controlling interest	**(5,488)**	(7,465)
	$ (1,472,210)	$ (2,395,975)
Loss Per Share – Basic and diluted	**$ (0.02)**	$ (0.07)
Weighted Average Number Of Shares Outstanding	**83,938,392**	32,278,589

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

KLONDIKE GOLD CORP.

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

	SHARE CAPITAL			RESERVES						
	NUMBER	AMOUNT	SHARE SUBSCRIPTIONS	SHARE PREMIUM	SHARE BASED PAYMENTS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	DEFICIT	OWNERS' EQUITY	NON CONTROLLING INTEREST	TOTAL
Balance, February 28, 2011	23,429,983	$ 47,031,966	$ -	$ 14,250	$ 2,597,634	$ (7,675)	$ (44,364,767)	$ 5,271,408	$ -	$ 5,271,408
Acquisition of Lonestar Gold Inc. (Note 10)	20,709,999	2,071,000	-	-	-	-	-	2,071,000	540,548	2,611,548
Private placements	18,680,000	1,868,000	-	-	-	-	-	1,868,000	-	1,868,000
Private placements – flow-through	18,020,000	1,802,000	-	13,155	-	-	-	1,815,155	-	1,815,155
Share issue costs - cash	-	(61,935)	-	-	-	-	-	(61,935)	-	(61,935)
Exploration and Evaluation Assets	100,000	21,500	-	-	-	-	-	21,500	-	21,500
Debt settlement	750,000	97,500	-	-	-	-	-	97,500	-	97,500
Other comprehensive loss	-	-	-	-	-	(18,428)	-	(18,428)	-	(18,428)
Net loss for the year	-	-	-	-	-	-	(2,388,510)	(2,388,510)	(7,465)	(2,395,975)
Balance, February 29, 2012	81,689,982	52,830,031	-	27,405	2,597,634	(26,103)	(46,753,277)	8,675,690	533,083	9,208,773
Private placements	20,945,000	1,780,600	-	-	-	-	-	1,780,600	-	1,780,600
Private placements – flow-through	2,960,026	249,300	-	-	-	-	-	249,300	-	249,300
Share subscriptions receivable	-	-	(396,000)	-	-	-	-	(396,000)	-	(396,000)
Share issue costs - cash	-	(7,600)	-	-	-	-	-	(7,600)	-	(7,600)
Stock based compensation	40,000	-	-	-	615,680	-	-	615,680		615,680
Other comprehensive loss	-	-	-	-	-	(21,940)	-	(21,940)	-	(21,940)
Net loss for the year	-	-	-	-	-	-	(1,466,722)	(1,466,722)	(5,488)	(1,472,210)
Balance, February 28, 2013	**105,635,008**	**$ 54,852,331**	**$ (396,000)**	**$ 27,405**	**$ 3,213,314**	**$ (48,043)**	**$ (48,219,999)**	**$ 9,429,008**	**$ 527,595**	**$ 9,956,603**

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

KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed In Canadian dollars)

	FOR THE YEARS ENDED February 28 2013	February 29 2012
Cash Provided By (Used In):		
Operating Activities		
Net loss for the year	$ (1,472,210)	$ (2,395,975)
Adjust for items not requiring an outlay of cash:		
Shares issued for consulting	2,400	-
Depreciation	63,789	2,429
Stock based compensation	613,280	-
Gain on debt settlement	(38,334)	(111,539)
Mineral properties abandoned and written off	129,034	1,647,380
Share of loss in joint venture investment	47,688	-
De-recognition of current liabilities	(271,008)	-
Reversal of flow-through investor obligation	(340,000)	-
Deferred income tax recovery	(12,500)	(3,680)
	(1,277,861)	(861,385)
Changes in non-cash operating assets and liabilities:		
HST recoverable	6,529	8,573
Amounts receivable	(27,105)	-
Prepaid expenses	(31,416)	(17,681)
Related party advances	3,700	(32,761)
Accounts payable and accrued liabilities	264,575	(20,652)
Due to related parties	(63,078)	(331,694)
Flow-through share premium liabilities	46,700	(16,836)
Loan payable	-	150,000
	(1,077,956)	(1,122,436)
Investing Activities		
Cash acquired on acquisition of Lonestar Gold Inc.	-	955,580
Equipment	(288,673)	(11,651)
Mineral property costs	(2,805,043)	(202,399)
Investment in joint venture	(174,345)	-
	(3,268,061)	741,530
Financing Activities		
Shares issued for cash	2,029,900	3,679,475
Restricted cash	(108,500)	-
Share issue costs	(7,600)	(61,935)
Share subscriptions receivable	(396,000)	-
	1,517,800	3,617,540
(Decrease) Increase In Cash	(2,828,217)	3,236,634
Cash – Beginning Of Year	3,924,521	687,887
Cash – End Of Year	$ 1,096,304	$ 3,924,521
Supplementary Cash Flow Information and Non-Cash Investing Activities:		
Interest paid	$ -	$ -
Taxes paid	$ -	$ -
Shares issued for mineral property acquisition costs	$ -	$ 21,500
Shares issued for acquisition of Lonestar Gold Inc. (Note 12)	$ -	$ 2,071,000

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Klondike Gold Corp. (the "Company") is a Vancouver-based resource exploration company listed on the TSX Venture Exchange under the symbol "KG". The Company was incorporated on August 23, 1978 under the laws of the Province of British Columbia, Canada. The Company's head office is located at Suite 711, 675 West Hastings Street, Vancouver British Columbia Canada, V6B 1N2.

These annual financial statements have been prepared assuming the Company will continue on a going-concern basis and be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. For the year ended February 28, 2013, the Company reported a loss of $1,472,210 and an accumulated deficit of $48,219,999 at that date. The Company had working capital of $1,002,721 and cash at February 28, 2013 amounted to $1,096,304. There is material uncertainty that casts substantial doubt upon the ability of the Company to continue as a going concern.

Continuing operations as a going concern are dependent upon management's ability to raise adequate financing and to ultimately achieve profitable operations in the future. Management has implemented a series of cost cutting measures and continues to seek financing for the Company. Although management has been successful in the past; there is no assurance that these initiatives will be successful in the future.

These financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate, and these adjustments could be material.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements, including comparatives, have been prepared on the basis of IFRS standards that are published at the time of preparation and that are effective or available for adoption on February 28, 2013.

a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

b) Basis of Measurement

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Foreign Currencies

The presentation currency of the Company and the functional currency of the Company and its subsidiaries and investment in a joint venture is the Canadian dollar. All financial information is presented in Canadian dollars unless otherwise noted and all financial information has been rounded to the nearest 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.

d) Basis of Consolidation

Subsidiaries

Subsidiaries are all entities over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. All intercompany balances and transactions are eliminated upon consolidation. The Company's principal operating subsidiaries are as follows:

Name	Principal Activity	Place of Incorporation	Ownership %
Klondike Gold Corp. Portugal Unipessoal Lda.	Exploration company	Portugal	100%
Lonestar Gold Inc.	Exploration company	Canada	79.82%
Klondike Reef Mines Inc. *	Exploration company	Canada	61.68%

* Inactive subsidiary – Consolidation of subsidiary accounts has been presented up to February 29, 2012.

Joint Venture

These consolidated financial statements also include the Company's investment in a joint venture with 46799 Yukon Inc. ("Yukon Inc."). The joint venture was incorporated under the laws of the Yukon Territory, Canada as KG46 Holdings Ltd. ("KG46") on July 6, 2012. In addition to a separate legal entity, the parties have the rights to the net assets of the arrangement. The Company accounts for this investment using the equity method. Under the equity method, an interest in a joint is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Company`s share of net assets of the joint venture.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) 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.

f) Financial Instruments and Risk Management

<u>Financial assets</u>

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Financial Instruments and Risk Management (Continued)

Financial assets (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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Financial Instruments and Risk Management (Continued)

Financial liabilities (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.

g) 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.

h) Cash and Cash Equivalents

Cash consists of balances with banks and investments in financial instruments with maturities within three months or that is readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Company places its cash and cash investments with institutions of high-credit worthiness.

i) 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.

Facts and circumstances as defined in *IFRS 6 exploration and evaluation assets* are as follows:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;

- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Exploration and Evaluation Assets (Continued)

- exploration for and evaluation of mineral resources in the specific area have not let to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;

- sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

In making the assessment, management is required to make judgments on the status of each project and the future plans towards finding commercial reserves. The nature of exploration and evaluation activity is such that only a proportion of projects are ultimately successful and some assets are likely to become impaired in future periods.

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.

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.

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.

The Company evaluates the carrying value of investments for impairment at the end of each reporting period. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Equipment

Equipment assets are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use. When parts of equipment have different useful lives, they are accounted for as separate items (major components) of equipment. Depreciation is recorded at the following rates:

Vehicles	3 years straight line basis
Office equipment and computers	3 years straight line basis
Mining equipment and machinery	3 years straight line basis

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

l) Impairment of Non-Financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the end of each reporting period. 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. Each of the Company's exploration and evaluation properties is considered to be a 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.

m) Interest in Joint Venture

A joint venture is a contractual arrangement whereby the Company and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic, financial, and operating policy decisions relating to the activities of the joint venture require unanimous consent of the parties sharing control).

Joint venture arrangements that involve the establishment of a separate legal entity in which each venture has an interest are referred to as jointly controlled entities. The Company reports its interest in a joint venture entity under the equity method of accounting. Under the equity method, an interest in a joint is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Company`s share of net assets of the joint venture.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Interest in Joint Venture (Continued)

When the Company transacts with a joint venture of the Company, the unrealized profit and losses are eliminated to the extent of the Company`s interest in the joint venture.

The financial statements of the joint venture were prepared for the same reporting period as the Company. Where necessary, adjustments were made to bring the accounting policies in line with those of the Company.

n) 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.

o) 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Share Capital (Continued)

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-through 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.

As qualified expenses are incurred the Company relieves the liability and recognizes the premium in income as deferred tax recovery.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) 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.

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.

q) 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. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these consolidated 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 consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated 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 determination of cash generating units in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of 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 deductible 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.

4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

Following the joint arrangement of KG 46 Holdings Ltd., the Company determined that it holds an interest in a joint venture as defined under IFRS 11 and elected to early adopt IFRS 10, 11 and 12, and IAS 27, new pronouncements relating to the accounting and presentation of joint ventures and to consolidation. The Company has applied the standards retrospectively. The standards did not result in significant changes to the Company's prior year financial statements.

IFRS 10 'Consolidated Financial Statements' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.

IFRS 11, 'Joint Arrangements' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangement; joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenue and expenses. Joint ventures arise where the joint venture has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Company had early adopted the standard and accounted for its investment in KG46 using the equity method.

4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (Continued)

IFRS 12 'Disclosure of Interests in Other Entities' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows. During the year ended February 28, 2013, the Company elected to early adopt this standard.

IAS 27 'Separate Financial Statements'– effective for annual periods beginning on or after January 1, 2013, as a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.

IAS 28 'Investments in Associates and Joint Ventures' – effective for annual periods beginning on or after January 1, 2013, as a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. During the year ended February 28, 2013, the Company elected to early adopt this standard.

Certain new accounting standards and interpretations have been published that are not mandatory for the February 28, 2013 reporting period. The Company has not early adopted the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

IFRS 7 'Financial Instruments: Disclosures' – effective for annual periods beginning on or after January 1, 2015, is amended to outline the disclosure required when initially applying IFRS 9 Financial Instruments.

IFRS 9 'Financial Instruments: Classification and Measurement' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.

IFRS 13 'Fair Value Measurement' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.

IFRS 32 'Financial Instruments: Presentation' - effective for annual periods beginning on or after January 1, 2014, is amended to provide guidance on the offsetting of financial assets and financial liabilities.

(Expressed in Canadian dollars)

4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (Continued)

IAS 1 'Presentation of Financial Statements' – the IASB amended IAS 1 effective for annual periods beginning on or after July 1, 2012 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially re-classifiable to profit or loss.

The Company anticipates that the application of the above new and revised standards, amendments and interpretations will have no material impact on its results and financial position. Disclosure changes are anticipated.

5. RESTRICTED CASH

Proceeds received in connection with a private placement during the year ended February 28, 2013 were received and held in trust by the Company's lawyer. Subsequent to the year end, $108,500 were released to the Company.

The Company has four corporate credit cards with a combined limit of $25,000. As collateral for the credit card, the Company has a one-year term deposit of $25,000 (February 29, 2012 - $25,000) earning interest at an annual rate of 0.8%.

6. AVAILABLE-FOR-SALE INVESTMENTS

	As of February 28, 2013		As of February 29, 2012	
	Shares	**Fair Value**	Shares	Fair Value
Klondike Silver Corp.	**34,350**	**$ 3,779**	34,350	$ 7,385
Anglo Swiss	**333,000**	**8,333**	333,000	26,667
		$ 12,112		$ 34,052

7. EQUIPMENT

	Costs			
	Vehicles	**Computers**	**Machinery/ Equipment**	**Total**
Balance March 1, 2011	$ -	$ -	$ -	$ -
Additions	29,550	13,901	11,774	55,225
Balance February 29, 2012	29,550	13,901	11,774	55,225
Additions	138,168	13,550	136,955	288,673
Balance February 28, 2013	**$167,718**	**$ 27,451**	**$148,729**	**$343,898**

(Expressed in Canadian dollars)

7. EQUIPMENT (Continued)

	Accumulated Depreciation			
	Vehicles	Computers	Machinery/ Equipment	Total
Balance March 1, 2011	$ -	$ -	$ -	$ -
Additions	1,735	299	395	2,429
Balance February 29, 2012	1,735	299	395	2,429
Depreciation	30,797	8,069	24,923	63,789
Balance February 28, 2013	**$ 32,532**	**$ 8,368**	**$ 25,318**	**$ 66,218**

	Net Carrying Amount			
	Vehicles	Computers	Machinery/ Equipment	Total
Balance March 1, 2011	$ -	$ -	$ -	$ -
Additions	27,815	13,602	11,379	52,796
Balance February 29, 2012	27,815	13,602	11,379	52,796
Additions	107,371	5,481	112,032	224,884
Balance February 28, 2013	**$135,186**	**$ 19,083**	**$123,411**	**$277,680**

KLONDIKE GOLD CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012
(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS

For the year ended February 28, 2013:

	Cranbrook Claims B.C.	Red Point B.C.	Sedex Group B.C.	Hope Claims B.C.	Ontario Claims Ontario	Yukon Claims Yukon	Portugal Claims Portugal	Total
Acquisition costs (net of option income)	$ 18,386	$ -	$ -	$ -	$ -	$ 47,475	$ -	$ 65,861
Exploration costs:								
Drilling	-	-	-	-	-	876,805	-	876,805
Equipment rental	-	-	-	-	-	10,798	-	10,798
Field office	-	-	-	-	-	11,000	-	11,000
Field supplies	-	-	-	-	-	35,923	-	35,923
Geology and mapping	80,138	9,980	67,182	-	-	1,170,831	66,148	1,394,279
Line cutting and trenching	-	-	-	-	-	88,983	-	88,983
Property maintenance	77,356	5,643	38,167	-	-	169,796	-	290,962
Travel	794	-	-	-	-	3,234	-	4,028
Total current exploration costs	158,288	15,623	105,349	-	-	2,367,370	66,148	2,712,778
Total costs incurred during the year	176,674	15,623	105,349	-	-	2,414,845	66,148	2,778,639
Properties written off	(119,041)	-	-	(9,993)	-	-	-	(129,034)
Balance, February 29, 2012	1,756,816	913,702	952,057	9,993	433,174	1,750,561	-	5,816,303
Balance, February 28, 2013	**$ 1,814,449**	**$ 929,325**	**$ 1,057,406**	**$ -**	**$ 433,174**	**$ 4,165,406**	**$ 66,148**	**$ 8,465,908**
Historical Costs:								
Acquisition	$ (5,338)	$ 125,312	$ -	$ -	$ 66,810	$ 1,297,841	$ -	$ 1,484,625
Exploration	1,819,787	804,013	1,057,406	-	366,364	2,867,565	66,148	6,981,283
	$ 1,814,449	$ 929,325	$1,057,406	$ -	$ 433,174	$ 4,165,406	$ 66,148	$ 8,465,908

KLONDIKE GOLD CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 28, 2013 AND FEBRUARY 29, 2012
(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS (Continued)

For the year ended February 29, 2012:

	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)	$ (25,000)	$ -	$ -	$ 7,670	$ -	$ 48,100	$ 1,224,367	$ 1,255,137
Exploration costs:								
Assay	-	-	-	172	-	-	15,734	15,906
Equipment rental	378	-	-	-	-	-	47,760	48,138
Field office	488	-	-	-	-	-	11,018	11,506
Geology and mapping	19,070	600	-	-	-	1,329	318,648	339,647
Line cutting and trenching	-	-	-	-	-	-	18,838	18,838
Property maintenance	52,590	-	8,180	2,151	-	-	69,154	132,075
Travel	278	-	-	-	-	-	12,398	12,676
Total current exploration costs	72,804	600	8,180	2,323	-	1,329	493,550	578,786
Total costs incurred during the year	47,804	600	8,180	9,993	-	49,429	1,717,917	1,833,923
Properties written off	(21,238)	-	-	-	(1,576,974)	(49,168)	-	(1,647,380)
Balance, February 28, 2011	1,730,250	913,102	943,877	-	1,576,974	432,913	32,644	5,629,760
Balance, February 29, 2012	**$1,756,816**	**$ 913,702**	**$ 952,057**	**$ 9,993**	**$ -**	**$ 433,174**	**$ 1,750,561**	**$ 5,816,303**
Historical Costs:								
Acquisition	$ (9,819)	$ 125,312	$ -	$ 7,670	$ -	$ 66,810	$ 1,250,367	$ 1,440,340
Exploration	1,766,635	788,390	952,057	2,323	-	366,364	500,194	4,375,963
	$1,756,816	$ 913,702	$ 952,057	$ 9,993	$ -	$ 433,174	$ 1,750,561	$ 5,816,303

8. 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.

During the year ended February 28, 2013, Anglo had not maintained its scheduled consideration payments and the Company has voided the option agreement.

iv) Vine, B.C.

The Company optioned Its Vine Property to PJX Resources Inc. ("PJX") in May 2012. The agreement allows PJX to obtain a 50% undivided interest to the Property grouped within the Cranbrook Claims. To earn its interest PJX must spend $1,500,000 on the property over five years, of which $1,000,000 must be for drilling, and issue 200,000 shares. Share issuances are required as follows: 50,000 due by April 26, 2014, 50,000 due by April 26, 2015, 50,000 due by April 26, 2016, and 50,000 due by April 26, 2019.

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 completed a purchase and now owns 100%.

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS (Continued)

e) Hope Claims, B.C.

These claims located West of Trail, BC have been staked by the Company. During the year ended February 28, 2013, the Company decided the claims did not have sufficient exploration potential to warrant further investment and wrote off the staking and maintenance costs of $9,993.

f) Chapleau Claims, Ontario

These claims were written off in the year ended February 29, 2012 as the Company no longer had plans to explore the property.

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	These claims were written off in the year ended February 29, 2012.

h) Yukon Claims, Yukon

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

The Company holds a 45% beneficial interest in a group of quartz claims and crown grants (the "Property") located between Eldorado Creek and Upper Bonanza Creed, Dawson Mining Division, Yukon Territory. A non-related company Klondike Star Mineral Corporation ("KSMC") holds the remaining 55% beneficial interest to the Property.

On June 6, 2011, the Company along with KSMC entered into an option agreement with Lonestar Gold Inc. ("Lonestar") whereby an option was granted to Lonestar to acquire up to 100% right, title and interest, legal and beneficial, in and to the group of claims. Lonestar is able to acquire legal interest in increments by paying the Company and KSMC, according to percentage of beneficial ownership, as follows:

First Option, 50% undivided interest in and to the Property:

- Issue 4,000,000 common shares;
- Incur a minimum $750,000 in expenditures on the Property on or before May 30, 2012 (subsequently renegotiated to August 30, 2012);
- Incur an additional $2,000,000 in expenditures on the Property on or before May 30, 2013;
- Issue on or before May 30, 2013 an equal number of shares issued by Lonestar for each equity financing conducted.

As at February 28, 2013, the Company has completed the terms as stipulated in the First Option.

8. EXPLORATION AND EVALUATION ASSETS (Continued)

h) Yukon Claims, Yukon (Continued)

Second Option, additional 25% undivided interest in and to the Property:

- Incur an additional $15,000,000 in expenditures on the Property on or before May 30, 2014
- Issue on or before May 30, 2014 an equal number of shares issued by Lonestar for each equity financing conducted.
- Incur an additional $8,000,000 in expenditures on the Property on or before December 31, 2014
- Issue on or before December 31, 2014 an equal number of shares issued by Lonestar for each equity financing conducted.

Third Option, additional 25% undivided interest in and to the Property:

- Complete a bankable feasibility study on the property on or before December 14, 2014
- Pay cash or in shares an amount calculated as: the number of total proven troy ounces of gold identified on the Property by a gold price factor.

i) Portuguese Exploration Licenses, Portugal

During the year ended February 28, 2013, the Company acquired exploration licenses from the Portuguese Department of Energy & Geology ("DGEG"). The area covers about 80 km^2 and includes the historic Castromil Gold Mine. The imposed work commitments include:

Largares
- € 10,000 bond
- € 5,000 annual DGEG fee
- Exploration expenditures of: year 1 – € 235,000; year 2 – € 540,000; year 3 – and to a cumulative minimum of € 855,000

Balazar
- € 10,000 bond
- € 5,000 annual DGEG fee
- Exploration expenditures of: year 1 € 40,000; year 2 € 70,000; and to a cumulative minimum of € 100,000 by year 3

(Expressed in Canadian dollars)

9. INVESTMENT IN JOINT VENTURE

During the year ended February 28, 2013, the Company and 46799 Yukon Inc. ("Yukon Inc.") entered into a joint arrangement agreement. Each own 50% of KG46 Holdings Ltd. ("KG46"), the joint venture company ("Joint Venture") which operates a placer mining operation south of Dawson City in Canada's Yukon Territory. At the time of forming the Joint Venture, the Company provided exclusive exploration, development and mining rights to certain placer gold mining claims and extensive mining data to the investment in joint venture. Yukon Inc. provided equipment and initial capital to the Joint Venture. The Company and Yukon Inc. have future obligations to fund KG46 if the operations do not result in a profit sufficient to fund operations.

Yukon Inc. has the ability to appoint the operator of the Joint Venture until it waives such right or its interest is reduced so that it is no longer equal to or larger than the interest of the Company.

The Company's interest in the Project is reflected as an Investment in Joint Venture, all project related costs are recorded in KG46 and the Company accounts for its interest in the joint venture under the equity method.

The recoverability of the Investment in Joint Venture amounts that relate to the Project are dependent upon the ability of the Company to obtain necessary financing to complete the assessment studies and the development of reserves, and upon future profitable production.

For the year ended February 28, 2013 the Company's 50% share of the loss was $47,688. For the year ended February 28, 2013 the Company received a 1% annual production royalty of $2,232. Prior to the Company receiving revenue payment beyond the 1% annual production royalty, 46799 Yukon Inc. is to receive $1,000,000 to repay their initial funding of KG46. The exploration, development and all mining rights to the property are subject to existing royalties of 10% of gross production.

At February 28, 2013 KG46 had current assets of $24,119, (which includes cash of $608), non-current assets of $1,544,278, current liabilities of $1,313,438, non-current liabilities of $350,235. Net and comprehensive loss for the year ended February 28, 2013 was $95,376, (which includes depreciation of $33,388, interest expense of $6,266 and income taxes of $Nil).

Equity Investment Continuity

Balance as at February 29, 2012	$ -
Current year contributions	174,345
Share of loss in joint venture investment	(47,688)
Balance as at February 28, 2013	**$ 126,657**

(Expressed in Canadian dollars)

10. RELATED PARTY BALANCES AND TRANSACTIONS

Key Management Compensation

	YEARS ENDED	
	FEBRUARY 28 2013	FEBRUARY 29 2012
Consulting and wages	**$ 252,100**	$ 157,265

Payments to key management personnel, including the Directors and Officers, 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 $4,408 (February 29, 2012 - $120,017) payable to a company controlled by a director and $39,960 (February 29, 2012 - $Nil) to companies with common directors and $31,503 (February 29 2012 - $18,932) to directors and officers.

b) Under an annual renewable agreement for services and cost recovery, the Company was charged administration fees of $180,000 (February 29, 2012 - $333,000) by a company controlled by a director. 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 $6,000 (February 29, 2012 – Nil) for rent in the Yukon by a director this amount was included in exploration and evaluation assets. In addition, the Company was charged $4,025 (February 29, 2012 – Nil) for consulting fees by a family member of an officer.

   The Company has amounts receivable from companies with directors in common in the amount of $17,551 (February 29, 2012 - $29,725) for expenses and shared mineral property costs. The advances are unsecured, non-interest bearing and have no fixed terms of repayment. The Company has a receivable from a director of $25,000 (February 29, 2012 - $25,000) for a private placement. The Company has a receivable from directors of $18,474 (February 29, 2012 - $10,000) for a prepaid expense advance.

(Expressed in Canadian dollars)

11. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.

b) During the year ended February 28, 2013, the following private placements were completed: In October 2012, 5,874,999 Units for total proceeds of $600,000. Each Unit consisted of a ½ warrant. Each full warrant entitles the holder to purchase one common share at a price of $0.20 for a period of three years. In February 2013 18,030,000 shares for total proceeds of $1,489,100. In conjunction with the placements the Company paid cash commissions of $7,600. Subsequent to the year ended February 28, 2013, the Company received full proceeds from the private placements.

c) During the year ended February 29, 2012, the following private placements were completed: In December 2011, 18,980,000 shares for total proceeds of $1,898,000. In February 2012, 17,720,000 shares for total proceeds of $1,772,000. The private placements included 18,020,000 flow-through units. In conjunction with the placements the Company paid cash commissions of $61,935.

d) A summary of the changes in warrants follows:

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, March 1, 2011	9,394,888	$ 0.71
Expired	(1,066,667)	1.50
Balance, February 29, 2012	8,328,221	0.75
Issued	2,937,500	0.20
Expired	(1,600,827)	0.63
Balance, February 28, 2013	**9,664,894**	**$ 0.71**

As at February 28, 2013 the following share purchase warrants were outstanding:

TOTAL NUMBER OF WARRANTS	EXERCISE PRICES	EXPIRY DATE
606,060	$3.00	July 25, 2013
1,925,000	$0.25	November 25, 2013
1,542,500	$0.25	December 16, 2013
20,000	$3.00	December 28, 2013
1,190,500	$0.25	December 29, 2013
710,000	$3.00	January 25, 2014
406,667	$1.50	September 30, 2014
326,667	$1.50	November 15, 2014
2,937,500	$0.20	October 22, 2015
9,664,894		

As at February 28, 2013 the weighted average remaining contractual life of the share purchase warrants was 1.40 years and the weighted average exercise price was $0.71 (February 29, 2012 - 1.65 years and $0.75).

(Expressed in Canadian dollars)

11. SHARE CAPITAL (Continued)

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

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, February 29, 2012	787,993	$ 1.50
Granted	4,040,000	0.20
Expired	125,667	1.50
Balance, February 28, 2013	4,702,326	0.38

The following summarizes the stock options outstanding and exercisable as at February 28, 2013:

EXERCISE PRICE	NUMBER OF OPTIONS OUTSTANDING AND EXERCISABLE	REMAINING CONTRACTUAL LIFE (YEARS)	EXPIRY DATE
$1.50	338,996	0.93	February 4, 2014
$1.50	323,330	3.93	February 2, 2017
$0.20	4,040,000	4.01	February 28, 2017
	4,702,326		

As at February 28, 2013 the weighted average remaining contractual life of the options was 3.78 years and the weighted average exercise price was $0.38 (February 29, 2012 - 2.33 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 past options have been granted with a term of five or seven years and were fully vested on the grant date.

On March 1, 2012, the Company granted 2,150,000 incentive stock options to directors and officers of the Company, 1,840,000 to employees and 50,000 to an IR firm, all for a period of five years. The fair value of the stock based compensation options was estimated on the date of grant in the amount of $613,280 using the Black-Scholes valuation model with the following assumptions i) exercise price per share of $0.20; ii) expected share price volatility of 136%; iii) risk free interest rate of 1.45%; iv) no dividend yield. All but 50,000 of the options granted vested immediately. Included in stock based compensation expense is $326,205 for options issued to directors and officers.

(Expressed in Canadian dollars)

11. SHARE CAPITAL (Continued)

g) Flow-Through Expenditure Commitments

During the current year the Company raised $308,500 (2012 - $1,802,000) in flow-through placements. As at February 28, 2013, the Company is committed to incur, on a best efforts basis, additional qualifying resource expenditures in the amount of $224,347 on or before January 31, 2015.

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 2013 flow-through commitments within the given time constraints.

12. ACQUISITION OF LONESTAR GOLD INC.

On December 29, 2011 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 its shares for 6,903,333 shares of Lonestar. The Company's shareholdings in Lonestar are now 8,703,333 shares, of which 1,800,000 shares were acquired in connection to Note 7(h)), equating to a 79.82% ownership.

Total consideration paid equals the fair value of the Company's shares on the acquisition date in the amount of $2,071,000. The transaction has been accounted for as an asset acquisition under IFRS. The consideration paid has been allocated to the acquired net assets based on their fair value at the date of acquisition. The purchase price of the acquisition has been allocated as follows:

Net Assets Acquired

Current assets	$ 955,580
Equipment	43,574
Exploration and evaluation assets	1,635,024
Current liabilities	(22,630)
	2,611,548
Non-controlling interest	540,548
	$ 2,071,000

During the year ended February 28, 2013 Lonestar had current assets of $342,541, (which includes cash and cash equivalents of $144,338), non-current assets of $1,089,081, current liabilities of $22,369, non-current liabilities of $Nil. Net and comprehensive loss for the year ended February 28, 2013 was $27,201, (which includes depreciation of $15,358, interest expense of $Nil and income taxes of $Nil).

For the year ended February 28, 2013 the loss allocated to non-controlling interests of the subsidiary was $5,488. The accumulated non-controlling interest in the subsidiary was $527,595.

13. DE-RECOGNITION OF CURRENT LIABILITIES

The Company has reviewed its current liabilities that had not been settled as at February 28, 2013 and identified amounts totalling $121,008 that no longer represent a present obligation arising from past events, the settlement of which is expected to result in an outflow from the Company of economic resources. This has resulted in the recording of a non-cash gain on the de-recognition of these previously recognized liabilities.

14. 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.

15. 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.

(Expressed in Canadian dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

As at February 28, 2013, 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	$ 1,096,304	$ -	$ -	$ 1,096,304	$ 1,096,304
Restricted cash	133,500	-	-	133,500	133,500
Available-for-sale Investments	-	-	12,112	12,112	12,112
Reclamation Bonds	10,500	-	-	10,500	10,500
	$ 1,240,304	$ -	$ 12,112	$ 1,252,416	$ 1,252,416
Financial liabilities					
Accounts payable and accrued liabilities	$ -	$ (222,592)	$ -	$ (222,592)	$ -
Due to related parties	-	(75,871)	-	(75,871)	-
	$ -	$ (298,463)	$ -	$ (298,463)	$ -

At February 28, 2013 and February 29, 2012, 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.
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.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

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.

c) Foreign Currency Risk

Foreign currency risk is the risk that the fair value or the future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency.

The Company is exposed to foreign currency risk with respect to cash, amounts receivable, and accounts payable and accrued liabilities, as a portion of these amounts are denominated in European Euros (EUR).

Based on the Company's net exposure 1% change in the Canadian Dollar/European Euro exchange rate would impact the Company's earnings by approximately $11,733 (2012 - $Nil). As this sensitivity analysis does not take into account any variables other than foreign currency rate fluctuations, the above information may not fully reflect the fair value of the assets and liabilities involved.

The Company manages foreign currency risk by minimizing the fair value of financial instruments denominated in foreign currency.

16. 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 28, 2013 and February 29, 2012:

	2013	2012
Statutory tax rate	25%	26%
	$	$
Income tax recovery at statutory rates	(368,000)	(629,000)
Effect of change in tax rates	-	10,000
Permanent difference	168,000	1,000
Flow-through renunciations	453,000	14,000
Change in tax assets not recognized	(372,000)	557,000
Other	106,500	43,320
	(12,500)	(3,680)

(Expressed in Canadian dollars)

16. INCOME TAXES (Continued)

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.

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

	2013	2012
	$	$
Marketable securities	9,000	-
Capital assets	15,000	14,000
Non-capital loss carry forwards	1,799,000	1,670,000
Capital loss carry forwards	668,000	668,000
Resource deductions	1,162,000	1,649,000
Share issue costs	38,000	62,000
	3,691,000	4,063,000
Valuation allowance for future income tax assets	(3,691,000)	(4,063,000)
	-	-

The Company has available non-capital tax losses of approximately $7,165,000 which may be carried forward and offset against future Canadian taxable income. The losses expire as follows:

Expiry Date	$
2015	487,000
2026	676,000
2027	617,000
2028	785,000
2029	1,392,000
2030	908,000
2031	721,000
2032	779,000
2033	800,000
	7,165,000

The Company also has available Portuguese non-capital tax losses of approximately $30,000.

The Company has capital losses carried forward of $5,342,170 that may be carried forward indefinitely.

The Company has Canadian resource pools of approximately $13,073,000 available to offset future taxable income. The tax benefit of these amounts is available for carry-forward indefinitely. The Company has foreign resource pools of approximately $25,000.

(Expressed in Canadian dollars)

17. CONTINGENT LIABILITY

During the year ended February 28, 2013, the Company de-recognized a loan payable to a company related by a common director in the amount of $150,000. The amount relates to an agreement of the former management of the Company. The Company's position is its ownership percentage should have been diluted upon non-payment. Management asserts there is an unlikely possibility of an outflow of resources embodying economic benefits.

18. COMMITMENTS

Operating lease commitment

The Company leases office premises with a remaining lease term of 1.67 years. The Company's commitment for future minimum payments in respect of the operating lease commitment is as follows:

	February 28, 2013	February 29, 2012
Short-term portion of the lease (<1 Year)	$ 35,419	$ 32,240
Long-term portion of the lease (Year 1-3)	28,260	63,679
	$ 63,679	$ 95,919

19. SUBSEQUENT EVENTS

Subsequent to the year ended February 28, 2013:

i) The Company is in the process of proposing to offer to acquire by way of a take-over bid to be conducted in accordance with applicable regulatory requirements, a majority equity interest in the common voting shares of Klondike Star Mineral Corporation, a publicly traded Delaware company. The Company will invite the shareholders of Klondike Star to exchange their common shares (the "Klondike Star shares") for newly issued Klondike Gold Corp. ("Klondike Gold") common shares on the basis of four (4) Klondike Star shares for one (1) share of Klondike Gold. The offer is subject to the tender of a sufficient number of Klondike Star shares to provide the Company with a minimum 66.6% interest in Klondike Star. The offer is also subject to acceptance for filing by the TSX Venture Exchange.

ii) The Company signed a twelve-month contract with an investor relations company for a monthly fee of $3,000. The Company granted two tranches of stock options. The first tranche of 250,000 stock options is priced at $0.10, exercisable for two years, and vest over a 12 month period. The second tranche of 250,000 stock options is priced at $0.20, and will begin to vest in 15 months with 62,500 options vesting every 3 months thereafter.

iii) The Company granted incentive stock options on 3,500,000 shares in the capital of the Company to directors and officers of the Company and 1,825,000 shares in the capital of the Company to consultants and employees of the Company. The options are exercisable for a period of three years at a price of $0.10 per share.