KLONDIKE GOLD CORP.

Condensed Interim
Consolidated Financial Statements

For The Three Months Ended
May 31, 2014 and 2013
(Expressed in Canadian Dollars)
(Unaudited)

NOTICE

No auditor review of the Interim Financial Statements.

The unaudited condensed consolidated interim financial statements of Klondike Gold Corp. (“the Company”), for the three months ended May 31, 2014, 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 INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Expressed In Canadian dollars)
(Unaudited)

	May 31, 2014	February 28, 2014
Assets		
Current assets		
Cash	**$ 42,486**	$ 73,681
Restricted cash (Note 5)	**10,000**	10,000
Amounts receivable	**398,507**	386,946
Prepaid expenses and deposits	**16,337**	29,116
	467,330	499,743
Available-for-sale investments (Note 6)	**206,718**	207,738
Reclamation bonds	**3,500**	3,500
Equipment (Note 7)	**115,299**	154,891
Exploration and evaluation assets (Note 8)	**4,809,951**	4,788,265
Investment in Joint Venture (Note 9)	**616,093**	540,026
Total assets	**$ 6,218,891**	$ 6,194,163
Liabilities		
Current liabilities		
Trade and other payables	**$ 396,787**	$ 323,935
Due to related parties (Note 11 (a))	**47,404**	45,225
Loans (Note 10)	**701,973**	511,781
Total liabilities	**1,146,164**	880,941
Equity		
Share capital (Note 12)	**55,625,491**	55,625,491
Reserves	**3,439,955**	3,437,753
Deficit	**(54,501,921)**	(54,263,731)
Shareholders' equity	**4,563,525**	4,799,513
Non-controlling interest	**509,202**	513,709
Total equity	**5,072,727**	5,313,222
Total liabilities and equity	**$ 6,218,891**	$ 6,194,163

Nature of operations and going concern (Note 1)
Subsequent events (Notes 8(d), 12)
Commitments (Note 16)

Approved by the Board of Directors and authorized for issue on July 28, 2014:

"Peter Tallman" Director

"Gordon Keep" Director

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

KLONDIKE GOLD CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
For the three months ended May 31, 2014 and 2013
(Expressed In Canadian dollars)
(Unaudited)

	2014	2013
Expenses		
Administration	$ 2,181	$ 90,750
Consulting and wages (Note 11)	106,162	219,807
Depreciation (Note 4)	31,402	28,478
Office and miscellaneous	11,537	6,788
Professional fees	38,128	27,763
Regulatory and transfer agent	7,939	10,666
Share-based compensation (Note 12)	-	250,800
Travel	2,845	81,443
	(200,194)	(716,495)
Miscellaneous income	-	42
Interest income	-	1,203
Foreign exchange gain	-	6,356
Finance expense (Note 10)	(15,808)	-
Loss on sale of equipment	(6,291)	(3,096)
Share of loss in joint venture investment (Note 9)	(20,404)	(135,341)
Loss before income taxes	(242,697)	(847,331)
Deferred income taxes	-	31,119
Net loss	(242,697)	(816,212)
Other comprehensive loss		
Unrealized gain (loss) on available-for-sale investments	2,202	(4,020)
Comprehensive loss	(240,495)	(820,232)
Net loss attributable to:		
Shareholders	$ (238,190)	$ (816,212)
Non-controlling interest	(4,507)	-
	$ (242,697)	$ (816,212)
Basic and diluted loss per share	$ (0.02)	$ (0.07)
Weighted average number of common shares outstanding basic and diluted	11,643,444	11,505,675

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

KLONDIKE GOLD CORP.

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

	SHARE CAPITAL			RESERVES						
	Shares issued [1]	Amount	Share Subscriptions	Share Premium	Share Based Payments	Available-For-Sale Financial Assets	Deficit	Owners' Equity	Non Controlling Interest	Total Equity
At February 28, 2013	10,563,444	$ 54,852,331	$ (396,000)	$ 27,405	$ 3,213,314	$ (48,043)	$ (48,219,999)	$ 9,429,008	$ 527,595	$ 9,956,603
Private placements	885,000	708,000	-	-	-	-	-	708,000	-	708,000
Private placements - flow-through	100,000	80,000	-	-	-	-	-	80,000	-	80,000
Share subscriptions receivable	-	-	396,000	-	-	-	-	396,000	-	396,000
Share issue costs - cash	-	(27,840)	-	-	-	-	-	(27,840)	-	(27,840)
Share based compensation	-	-	-	-	250,800	-	-	250,800	-	250,800
Other comprehensive loss	-	-	-	-	-	(4,020)	-	(4,020)	-	(4,020)
Net loss	-	-	-	-	-	-	(816,212)	(816,212)	-	(816,212)
At May 31, 2013	11,548,444	$ 55,612,491	$ -	$ 27,405	$ 3,464,114	$ (52,063)	$ (49,036,211)	$ 10,015,736	$ 527,595	$ 10,543,331
At February 28, 2014	11,643,444	$ 55,625,491	$ -	$ 27,405	$ 3,460,764	$ (50,416)	$ (54,263,731)	$ 4,799,513	$ 513,709	$ 5,313,222
Other comprehensive income	-	-	-	-	-	2,202	-	2,202	-	2,202
Net loss	-	-	-	-	-	-	(238,190)	(238,190)	(4,507)	(242,697)
At May 31, 2014	11,643,444	$ 55,625,491	$ -	$ 27,405	$ 3,460,764	$ (48,214)	$ (54,501,921)	$ 4,563,525	$ 509,202	$ 5,072,727

Note 1 - Subsequent to May 31, 2014, effective July 28, 2014, the Company's common shares were consolidated on the basis of 10 pre-consolidation common shares for 1 post-consolidation common share. All common share, share purchase warrant, share option, and per share amounts in these unaudited condensed interim consolidated financial statements have been retrospectively restated to present post-consolidation amounts.

KLONDIKE GOLD CORP.

CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended May 31, 2014 and 2013
(Expressed In Canadian dollars)
(Unaudited)

	2014	2013
Operating activities		
Net loss for the period	$ (242,697)	$ (816,212)
Items not involving cash:		
Depreciation	31,402	28,478
Share based compensation	-	250,800
Share of loss in joint venture investment	20,404	135,341
Loss on disposal of equipment	6,291	-
Changes in non-cash working capital items:		
Amounts receivable	(11,561)	(30,456)
Prepaid expenses	12,779	(38,123)
Advances	-	10,596
Due to related parties	2,179	(98,917)
Flow-through share premium liabilities	-	(62,693)
Accrued interest	15,192	
Trade and other payables	72,851	(11,119)
	(93,160)	(632,305)
Financing activities		
Proceeds on loans (Note 10)	175,000	-
Shares issued for cash	-	788,000
Restricted cash	-	108,500
Share issue costs	-	(27,840)
Share subscriptions receivable	-	396,000
	175,000	1,264,660
Investing activities		
Equipment	1,900	(174)
Exploration and evaluation assets	(21,686)	(187,320)
Investment in joint venture	(96,471)	(370,726)
Sale of marketable securities	3,222	
Reclamation bonds	-	(127,557)
	(113,035)	(685,777)
Change in cash during the period	(31,195)	(53,422)
Cash, beginning of period	73,681	1,096,304
Cash, end of period	$ 42,486	$ 1,042,882
Interest paid	$ -	$ -
Taxes paid	$ -	$ -

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

KLONDIKE GOLD CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MAY 31, 2014 AND 2013
(Expressed in Canadian dollars)
(Unaudited)

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 3123, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1J1 and the Company's registered and records office is located at suite 1600, 609 Granville Street, Vancouver, British Columbia, Canada, V7Y 1C3.

These unaudited condensed interim consolidated 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 three months ended May 31, 2014, the Company reported a loss of $242,697 and an accumulated deficit of $54,501,921 at that date. The Company had a working capital deficit of $678,834 and cash at May 31, 2014 amounted to $42,486.

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. During the three months ended May 31, 2014, the Company received $175,000 in loans from various investors to cover immediate operating expenses and help restructure the Company in addition to the $500,000 in loans received during the year ended February 28, 2014. 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 conditions may cast significant doubt on the Company's ability to continue as a going concern.

These unaudited condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position classifications that would be necessary were the going concern assumption inappropriate, and these adjustments would be material.

2. BASIS OF PRESENTATION

a) Statement of Compliance

The Company prepares its annual financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. These unaudited condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting and follow the same accounting policies and methods of application as the Company's most recent annual financial statements. Accordingly, they should be read in conjunction with the Company's most recent annual financial statements. These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on July 28, 2014.

b) Basis of Measurement

These 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 statements have been prepared using the accrual basis of accounting, except for cash flow information. Certain prior period balances have been re-classified to conform to the current period presentation.

2. BASIS OF PRESENTATION (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 %
Lonestar Gold Inc.	Exploration company	Canada	79.82 %

Joint Venture

These unaudited condensed consolidated interim 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 venture 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. BASIS OF PRESENTATION (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.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of these unaudited 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 unaudited condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited 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 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.

(Expressed in Canadian dollars)

4. NEW AND FUTURE ACCOUNTING STANDARDS AND INTERPRETATIONS

IAS 32 - Offsetting Financial Assets and Financial Liabilities (Amended) clarifies the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after January 1, 2014. The adoption of this standard did not have a material impact on the financial statements.

In May 2013, the IASB IFRS Interpretations Committee ("IFRIC") issued IFRIC 21 – Levies ("IFRIC 21"), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. The adoption of this standard did not have a material impact on the financial statements.

The Company has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9 - Financial Instruments was issued in November 2009 and covers the classification and measurement of financial assets as part of its project to replace IAS 39 - Financial Instruments: Recognition and Measurement. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entitles would be required to reverse the portion of the fair value change due to own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is applicable for periods beginning on or after January 1, 2015. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

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

The Company has a corporate credit card with a limit of $10,000. As collateral for the credit card, the Company maintains a one-year term deposit of $10,000 (February 28, 2014 - $10,000) earning interest at an annual rate of 0.80% with a maturity date of February 21, 2015.

6. AVAILABLE-FOR-SALE INVESTMENTS

	As of May 31, 2014		As of February 28, 2014	
	Shares	**Fair Value**	Shares	Fair Value
Klondike Silver Corp.	**34,350**	**$ 1,718**	34,350	$ 2,405
Anglo Swiss Resources Inc.	**-**	**-**	333,333	3,333
Medgold Resources Corp.	**800,000**	**100,000**	800,000	104,000
PJX Resources Inc. (Note 8)	**700,000**	**105,000**	700,000	98,000
		$ 206,718		$ 207,738

(Expressed in Canadian dollars)

7. EQUIPMENT

Cost	Vehicles	Computers	Machinery/ Equipment	Total
Balance, February 28, 2013	$ 167,718	$ 27,451	$ 148,729	$ 343,898
Additions	1,591	1,132	-	2,723
Disposals	(28,080)	-	-	(28,080)
Balance, February 28, 2014	141,229	28,583	148,729	318,541
Additions	-	-	-	-
Disposals	(15,938)	-	-	(15,938)
Balance, May 31, 2014	**$ 125,291**	**$ 28,583**	**$ 148,729**	**$ 302,603**

Accumulated amortization	Vehicles	Computers	Machinery/ Equipment	Total
Balance, February 28, 2013	$ 32,532	$ 8,368	$ 25,318	$ 66,218
Additions	61,487	9,328	49,574	120,389
Disposals	(22,957)	-	-	(22,957)
Balance, February 28, 2014	71,062	17,696	74,892	163,650
Additions	13,640	2,819	14,943	31,402
Disposals	(7,748)	-	-	(7,748)
Balance, May 31, 2014	**$ 76,954**	**$ 20,515**	**$ 89,835**	**$ 187,304**

Carrying amount	Vehicles	Computers	Machinery/ Equipment	Total
Balance, February 28, 2013	$ 135,186	$ 19,083	$ 123,411	$ 277,680
Balance, February 28, 2014	$ 70,167	$ 10,887	$ 73,837	$ 154,891
Balance, May 31, 2014	**$ 48,337**	**$ 8,068**	**$ 58,894**	**$ 115,299**

KLONDIKE GOLD CORP.

NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS
THREE MONTHS ENDED MAY 31, 2014 AND 2013
(Expressed in Canadian dollars)
(Unaudited)

8. EXPLORATION AND EVALUATION ASSETS

	Yukon Claims	Total
	$	$
Acquisition costs:		
Balance, February 28, 2014	1,364,222	1,364,222
Additions	-	-
Balance, May 31, 2014	1,364,222	1,364,222
Exploration costs:		
Balance, February 28, 2014	3,424,043	3,424,043
Consulting & wages	14,250	14,250
Camp supplies	2,790	2,790
Fuel	774	774
Property maintenance	3,872	3,872
Balance, May 31, 2014	3,445,729	3,445,729
Total costs:		
Balance, May 31, 2014	4,809,951	4,809,951

	Portugal Claims	Ontario Claims	British Columbia Claims	Yukon Claims	Total
	$	$	$	$	$
Acquisition costs:					
Balance, February 28, 2013	-	66,810	119,974	1,297,841	1,484,625
Additions	-	-	-	66,381	66,381
Properties written off	-	(66,810)	(119,974)	-	(186,784)
Balance, February 28, 2014	-	-	-	1,364,222	1,364,222
Exploration costs:					
Balance, February 28, 2013	66,148	366,364	3,681,206	2,867,565	6,981,283
Field office	-	-	-	1,463	1,463
Field supplies	-	-	-	58,336	58,336
Geology and mapping	58,420	-	57,853	387,128	503,401
Line cutting and trenching	-	-	-	3,500	3,500
Property maintenance	-	-	7,855	97,754	105,609
Travel	-	-	-	8,297	8,297
Properties written off	-	(366,364)	(3,648,914)	-	(4,015,278)
Properties sold	(124,568)	-	(98,000)	-	(222,568)
Balance, February 28, 2014	-	-	-	3,424,043	3,424,043
Total costs:					
Balance, February 28, 2014	-	-	-	4,788,265	4,788,265

8. EXPLORATION AND EVALUATION ASSETS (Continued)

a) B.C. Claims

The Company holds title to several claims in good standing in south-eastern B.C., prospective for gold and base metals.

On February 27, 2014, the Company completed a purchase and sale agreement with PJX Resources Inc. (“PJX”) for the acquisition by PJX of 100% of Klondike’s Vine Extension Property comprised of 84 claims totalling 6,300 hectares located near Cranbrook, British Columbia, Canada. PJX has purchased 100% of the Company’s interest in the Property by issuing 700,000 common shares to the Company. In addition to the payment of shares, the Company retains a royalty equal to 1% of Net Smelter Returns (“NSR”) from minerals produced from the Property.

As at February 28, 2014, management determined substantive expenditure on further exploration for and evaluation of mineral resources was not budgeted nor planned; accordingly, all related capitalized costs of $3,768,888 were written off.

b) Ontario Claims

The Matarrow property was acquired by option dated February 7, 2007 as amended December 10, 2008 and subsequently expanded by staking. By February 26, 2010 the Company had earned a 100% interest in the property subject to a 2% NSR of which half can be purchased for $1,000,000.

As at February 28, 2014, management determined substantive expenditure on further exploration for and evaluation of mineral resources was not budgeted nor planned; accordingly, all related capitalized costs of $433,174 were written off.

c) Yukon Claims

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

The Company holds a 72.5% beneficial interest in a group of quartz claims and crown grants (the “Yukon Property”) located between Eldorado Creek and Upper Bonanza Creek, Dawson Mining Division, Yukon Territory. Klondike Star Mineral Corporation (“KSMC”), holds the remaining 27.5% beneficial interest in the Yukon 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:

8. EXPLORATION AND EVALUATION ASSETS (Continued)

c) Yukon Claims (Continued)

First Option, 50% undivided interest in and to the Yukon Property (Completed):

- Issue 4,000,000 common shares;
- Incur a minimum $750,000 in expenditures on the Yukon Property on or before August 30, 2012;
- Incur an additional $2,000,000 in expenditures on the Yukon 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.

Lonestar has fulfilled its earn-in objectives by exercising the First Option.

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

- Incur an additional $15,000,000 in expenditures on the Yukon 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 Yukon 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, to acquire an additional 25% undivided interest in and to the Yukon Property:

- Complete a bankable feasibility study on the Yukon 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 Yukon Property by a gold price factor.

Subsequent to May 31, 2014, the Company completed the acquisition of 71% of the outstanding shares of Klondike Star Mineral Corporation ("KSMC"), a private Delaware company. In consideration for the shares of KSMC, Klondike Gold issued 1,230,158 common shares. In the coming months, the Company intends to complete its subsequent share acquisition transaction to acquire the remaining balance of the KSMC shares so that Klondike Gold will own 100% of KSMC.

Pursuant to this transaction, Klondike Gold has settled US $1,077,894 of debt owed by KSMC to related parties. In settlement of these debts the Company has issued an aggregate of 2,155,788 warrants to purchase shares of Klondike Gold, exercisable at $1.00 per share until January 18, 2017.

The purpose of the acquisition was to enable Klondike Gold to consolidate ownership of the gold properties in the Yukon by acquiring beneficial ownership of all outstanding KSMC shares.

8. EXPLORATION AND EVALUATION ASSETS (Continued)

d) Portuguese Exploration Licenses

The Company acquired five exploration licenses (Balazar, Valongo, Legares, Castelo do Paiva and Ponte de Barca) totaling approximately 604 km2 area prospective for gold from the Portuguese Department of Energy & Geology ("DGEG").

In an agreement dated January 24, 2014, the Company sold its Portuguese subsidiary which owns the Portuguese exploration licenses to Medgold Resource Ltd., a subsidiary of Medgold Resources Corp. ("Medgold"), for consideration of $500,000 to be paid in cash or shares or a combination. As at May 31, 2014, the Company has received $50,000 and $100,000 in common shares of Medgold.

By January 24, 2015, Medgold is required to pay a further $100,000 in cash and $250,000 in cash or Medgold common shares. As at May 31, 2014, the $350,000 has been recorded in amounts receivable. The Company will retain a 2% NSR over the existing exploration licenses, of which Medgold Resource Ltd. may purchase all or parts of the NSR for $1,000,000 per percentage point.

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 company owns 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 Joint Venture 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 Joint Venture 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 three months ended May 31, 2014 net and comprehensive loss of KG46 was $40,808 (which includes depreciation of $26,437, interest expense of $2,159 and income taxes of nil). The Company's 50% share of the loss was $20,404.

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.

(Expressed in Canadian dollars)

9. INVESTMENT IN JOINT VENTURE (continued)

Equity Investment Continuity

		Three months ended May 31, 2014		Year ended February 28, 2014
Opening balance	$	**540,026**	$	126,657
Current period contributions		**96,471**		814,037
Share of loss in joint venture investment		**(20,404)**		(400,668)
Closing balance	$	**616,093**	$	540,026

Summarized Financial Information of KG46

		At May 31, 2014		At February 28, 2014
Current assets	$	**3,733**	$	369,171
Equipment		**1,720,934**		1,725,692
Current liabilities		**(266,302)**		(677,044)
Due to joint venture partners		**(2,344,717)**		(2,263,763)
Deficit	$	**(886,352)**	$	(845,944)

Assignment of Lease on Indian River Property

During the three months ended May 31, 2014, the Company and 46799 Yukon Inc. (the "Assignors") signed an assignment of lease agreement with Jerusalem Mining LLC (the "Assignee") pursuant to which, the Assignors assigned to the Assignee all of the rights, benefits and obligations of a portion of the Indian River placer property until December 31, 2014. The parties may agree to extend the term for consecutive one year periods by mutual agreement prior to November 30 of each calendar year. In consideration, the Assignee has granted to the Assignors a 20% royalty on gross production of gold, subject to a minimum annual payment of 100 ounces raw gold, or cash equivalent.

10. LOANS

On December 4, 2013, the Company signed a $500,000 loan agreement. The loan was secured by a first priority security interest over all of its present and after-acquired personal property and all proceeds thereof. The principal of the loan and accrued interest was due and payable on May 31, 2014 but has been subsequently extended to August 31, 2014. The loan is carried at 10% interest per annum, compounded monthly at the last business day of each month.

On May 7, 2014, the Company signed additional loan agreements in the amount of $175,000, carried at 10% interest per annum, compounded monthly at the last business day of each month, payable on August 31, 2014.

As at May 31, 2014, interest of $26,973 (February 28, 2014: $11,781) was included in loans in the statement of financial position.

(Expressed in Canadian dollars)

11. RELATED PARTY BALANCES AND TRANSACTIONS

Key Management Compensation

	THREE MONTHS ENDED	
	MAY 31 2014	MAY 31 2013
Consulting and wages	**$ 25,875**	$ 99,800

Payments to key management personnel, including directors, officers, former directors and former officers are wages and consulting fees and are directly related to their position in the organization.

In addition to consulting and wages, $8,625 was deferred in exploration and evaluation assets for the three months ended May 31, 2014 (May 31, 2013 - nil).

Other Related Party Transactions

The Company entered into the following transactions and had the following balances payable with related parties. The transactions were recorded at fair value. Balances outstanding are non-interest bearing, unsecured and had no specific terms for collection or repayment.

a) Due to related parties comprised $47,404 due to a company owned by the CEO of the Company (February 28, 2014 - $26,535 payable to companies controlled by former directors) and nil (February 28, 2014 - $32,100) to former directors and officers.

b) Under an agreement for services and cost recovery, the Company was charged administration fees of nil (May 31, 2013 – $15,100) by a company controlled by a former director. The agreement has been terminated.

c) The Company was charged $30,000 (May 31, 2013 – nil) by a Company controlled by a director of the Company for corporate administration services.

d) Loans included $25,000 (February 28, 2014 - $25,000) due to a director of the Company.

(Expressed in Canadian dollars)

12. SHARE CAPITAL

Subsequent to May 31, 2014, effective July 28, 2014, the Company's common shares were consolidated on the basis of 10 pre-consolidation common shares for 1 post-consolidation common share. All common share, share purchase warrant, share option, and per share amounts in these unaudited condensed interim consolidated financial statements have been retrospectively restated to present post-consolidation amounts.

a) Authorized: Unlimited common shares without par value.

b) No shares were issued during the three months ended May 31, 2014. Subsequent to May 31, 2014, 1,229,345 common shares were issued pursuant to the acquisition of 71% of KSMC (see Note 8(c)).

c) A summary of the changes in share purchase warrants follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, February 28, 2013	966,489	$ 7.10
Issued	60,000	1.20
Expired	(599,406)	8.60
Balance, February 28, 2014 and May 31, 2014	427,083	$4.12

As at May 31, 2014 the following share purchase warrants were outstanding:

Number of Warrants	Weighted Average Exercise Price	Expiry Date
40,667	$15.00	September 30, 2014
32,666	15.00	November 15, 2014
293,750	2.00	October 22, 2015
60,000	1.20	October 30, 2016
427,083	$4.12	

As at May 31, 2014 the weighted average remaining contractual life of the share purchase warrants was 1.37 years and the weighted average exercise price was $4.12 (February 28, 2014 - 1.62 years and $4.12).

Subsequent to May 31, 2014, 2,155,788 share purchase warrants were issued pursuant to the acquisition of 71% of KSMC, exercisable at $1.00 until January 18, 2017.

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

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

	Number of Options	Weighted Average Exercise Price
Balance, February 28, 2013	$ 470,232	$ 3.80
Granted	532,500	1.00
Expired / Cancelled	(363,466)	3.30
Balance, February 28, 2014	639,266	1.60
Expired / Cancelled	(503,333)	(1.50)
Balance, May 31, 2014	$ 135,933	$1.63

The following summarizes stock options outstanding and exercisable as at May 31, 2014:

Number of Options Oustanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Expiry Date
62,500	$1.00	0.33	September 30, 2014
933	15.00	0.46	November 15, 2014
72,500	2.00	1.39	October 22, 2015
135,933	$1.63	0.90	

f) Share-based Compensation

The Company has a stock option plan that provides for the issuance of options to its directors, officers, employees and consultants. The maximum number of outstanding options must be no more than 10% of the issued and outstanding shares at any point in time.

No stock options were granted during the three months ended May 31, 2014.

g) Flow-Through Expenditure Commitments

During the year ended February 28, 2014 the Company raised $112,000 (February 28, 2013 - $308,500) in flow-through placements. As at May 31, 2014, the Company has fulfilled its flow-through spending requirements.

13. ACQUISITION OF LONESTAR GOLD INC.

On December 29, 2011 the Company completed an exempt take-over bid to acquire a 79.82% interest in the shares of Lonestar Gold Inc. ("Lonestar") a privately held British Columbia company. The remaining 20.18% of Lonestar is held by KSMC. Subsequent to May 31, 2014 , the Company acquired 71% of KSMC (Note 8(c)) and intends to complete its subsequent share acquisition transaction to acquire the remaining balance of the KSMC shares, subsequent to which, the Company will own 100% of Lonestar.

As at May 31, 2014 Lonestar had current assets of $111,868 (February 28, 2014 $111,676), (which includes cash and cash equivalents of $1,026 (February 28, 2014 $9,109) and $90,000 receivable from the Company (February 28, 2013 $80,000)), non-current assets of $1,250,473 (February 28, 2014 $1,249,119), current liabilities of $24,261 (February 28, 2014 $20,365), and non-current liabilities of $Nil (February 28, 2014 $Nil). Net and comprehensive loss for the three months ended May 31, 2014 was $22,350 (May 31, 2013 nil).

For the three months ended May 31, 2014 the loss allocated to non-controlling interests of the subsidiary was $4,507 (May 31, 2013 $13,866). As at May 31, 2014, the accumulated non-controlling interest in the subsidiary was $509,202 (February 28, 2014 $513,709).

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.

(Expressed in Canadian dollars)

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.

As at May 31, 2014, 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	42,486	-	-	42,486	42,486
Restricted cash	10,000	-	-	10,000	10,000
Available-for-sale Investments	-	-	206,718	206,718	206,718
Reclamation Bonds	3,500	-	-	3,500	3,500
Amounts receivable	-	398,507	-	398,507	398,507
	55,986	398,507	206,718	661,211	661,211
Financial liabilities	$	$	$	$	$
Trade and other payables	-	(444,191)	-	(444,191)	(444,191)
Due to related parties	-	-	-	-	-
Loan	-	(701,973)	-	(701,973)	(701,973)
	-	(1,146,164)	-	(1,146,164)	(1,146,164)

At May 31, 2014 and February 28, 2014, the Company's financial instruments which are measured at fair value on a recurring basis are cash and marketable securities which are classified as Level 1.

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

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

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

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

a) Commodity Price Risk

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

(Expressed in Canadian dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

a) Commodity Price Risk (continued)

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

b) Liquidity Risk

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

During the past year the Company has been able to maintain its liquidity position through private placements.

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.

16. COMMITMENTS

Operating Lease Commitment

The Company leases office premises with a remaining lease term of 0.42 years. The Company's commitment for future minimum payments in respect of the operating lease commitment is as follows:

	May 31, 2014
Short-term portion of the lease (<1 Year)	$ 16,165
Long-term portion of the lease (Year 2-3)	-
	$ 16,165

KG46 holds a mortgage with a remaining term of 1.1 years. KG46's commitment for future minimum payments in respect of the mortgage commitment is as follows:

	May 31, 2014
Short-term portion of the lease (<1 Year)	$ 72,090
Long-term portion of the lease (Year 2-3)	165,230
	$ 237,320