KLONDIKE GOLD CORP.

Consolidated Financial Statements

For The Years Ended
February 29, 2016 and February 28, 2015
(Expressed in Canadian Dollars)

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Klondike Gold Corp.

We have audited the accompanying consolidated financial statements of Klondike Gold Corp., which comprise the consolidated statement of financial position as at February 29, 2016, and the consolidated statements of net loss and comprehensive loss, changes in equity, and cash flows for the year 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, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' 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 audit is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Klondike Gold Corp. as at February 29, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

Other Matters

The consolidated financial statements of Klondike Gold Corp. for the year ended February 28, 2015 were audited by another auditor who expressed an unmodified opinion on those statements on June 25, 2015.

"DAVIDSON & COMPANY LLP"

Vancouver, Canada

Chartered Professional Accountants

June 20, 2016

KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at February 29, 2016 and 2015
(Expressed in Canadian dollars)

		2016		2015
Assets				
Current assets				
Cash and cash equivalents	$	**522,988**	$	956,598
Restricted cash (Note 5)		**25,000**		10,000
Amounts receivable		**14,173**		41,610
Prepaid expenses and deposits		**76,591**		91,117
Total current assets		**638,752**		1,099,325
Available-for-sale investments (Note 6)		**180,065**		407,531
Reclamation bond		**3,500**		3,500
Property and equipment (Note 7)		**406,333**		473,486
Exploration and evaluation assets (Note 8)		**8,122,914**		7,724,211
Total assets	$	**9,351,564**	$	9,708,053
Liabilities				
Current liabilities				
Trade and other payables	$	**82,063**	$	74,536
Due to related parties (Note 11)		**12,075**		12,075
Mortgage payable (Note 10)		**-**		176,000
Flow-through premium (Note 12(b))		**-**		40,000
Total liabilities		**94,138**		302,611
Equity				
Share capital (Note 12)		**60,136,645**		59,727,143
Reserves		**4,773,456**		4,863,107
Deficit		**(55,750,073)**		(55,282,206)
Shareholders' equity		**9,160,028**		9,308,044
Non-controlling interest		**97,398**		97,398
Total equity		**9,257,426**		9,405,442
Total liabilities and equity	$	**9,351,564**	$	9,708,053

Nature of operations and going concern (Note 1)
Subsequent events (Notes 1, 8, 12(b)(c)(d))
Commitments (Note 12(f), 17)

Approved by the Board of Directors and authorized for issue on June 20, 2016:

"Peter Tallman" Director

"Gordon Keep" Director

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

KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
For the years ended February 29, 2016 and February 28, 2015
(Expressed in Canadian dollars)

	2016	2015
Expenses		
Consulting and wages (Note 11)	$ **388,887**	$ 427,501
Share-based compensation (Notes 11, 12(d))	**-**	270,350
Office and miscellaneous	**74,097**	101,822
Professional fees	**69,286**	90,868
Depreciation (Note 7)	**62,986**	121,266
Travel	**34,224**	20,517
Regulatory and transfer agent	**27,876**	45,449
	(657,356)	(1,077,773)
Miscellaneous income (Note 18)	**81,743**	2,372
Interest income	**4,199**	831
Other income (Note 12(b))	**40,000**	-
Foreign exchange gain (loss)	**1,133**	(2,981)
Finance expense	**(9,195)**	(49,388)
Gain (loss) on sale of equipment (Note 7)	**48,309**	(16,511)
Gain (loss) on sale of available-for-sale investments	**23,300**	(43,943)
Share of loss in joint venture investment (Note 9)	**-**	(33,061)
Gain on disposition of joint venture (Note 9)	**-**	195,624
Writedown of equipment (Note 7)	**-**	(524,537)
Gain on settlement of debt	**-**	17,183
Net loss for the year	**(467,867)**	(1,532,184)
Other comprehensive loss		
Unrealized loss on available-for-sale investments	**(87,718)**	(46,274)
Reclassification on sale of available-for-sale investments	**(1,933)**	43,943
Other comprehensive loss	**(89,651)**	(2,331)
Loss and comprehensive loss for the year	**(557,518)**	(1,534,514)
Net loss attributable to:		
Shareholders	$ **(467,867)**	$ (1,527,650)
Non-controlling interest	**-**	(4,534)
	$ **(467,867)**	$ (1,532,184)
Basic and diluted loss per share	$ **(0.01)**	$ (0.08)
Weighted average number of common shares outstanding basic and diluted	**34,585,211**	19,284,638

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						
	Note 1 (Recast) Shares issued	Amount	Share Premium	Share-based Payments	Available-For-Sale Financial Assets	Deficit	Shareholders' Equity	Non Controlling Interest	Total Equity
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 loss	-	-	-	-	(2,331)	-	(2,331)	-	(2,331)
Purchase of Klondike Star Mineral Corp. (Note 13)	1,229,120	245,869	-	-	-	513,709	759,578	(411,777)	347,801
Purchase of KG46 Holdings Ltd. (Note 9)	6,435,000	1,287,000	-	-	-	-	1,287,000	-	1,287,000
Warrants issued for settlement of amounts payable (Note 12(c))	-	-	-	1,157,335	-	-	1,157,335	-	1,157,335
Private placement (Note 12(b))	10,501,477	1,890,266		-	-	-	1,890,266		1,890,266
Private placement - flow-through (Note 12(b))	4,000,000	800,000	-	-	-	-	800,000	-	800,000
Flow-through premium (Note 12(b))		(40,000)	-	-	-	-	(40,000)	-	(40,000)
Share issue costs (Note 12(b))	-	(81,483)	-	-	-	-	(81,483)	-	(81,483)
Share-based compensation (Note 12(d))	-	-	-	270,350	-	-	270,350	-	270,350
Net loss	-	-	-	-	-	(1,532,184)	(1,532,184)	(4,534)	(1,536,718)
At February 28, 2015	33,809,041	$ 59,727,143	$ 27,405	$ 4,888,449	$ (52,747)	$ (55,282,206)	$ 9,308,044	$ 97,398	$ 9,405,442
Other comprehensive loss	-	-	-	-	(89,651)	-	(89,651)	-	(89,651)
Private placement (Note 12(b))	3,415,000	341,500	-	-	-	-	341,500	-	341,500
Private placement - flow-through (Note 12(b))	750,000	75,000	-	-	-	-	75,000	-	75,000
Share issue costs (Note 12(b))	-	(6,998)	-	-	-	-	(6,998)	-	(6,998)
Net loss	-	-	-	-	-	(467,867)	(467,867)	-	(467,867)
At February 29, 2016	37,974,041	$ 60,136,645	$ 27,405	$ 4,888,449	$ (142,398)	$ (55,750,073)	$ 9,160,028	$ 97,398	$ 9,257,426

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, stock option, and per share amounts in these consolidated financial statements have been retrospectively restated to present post-consolidation amounts.

Note 1 - The Company recast the shares issued on the Purchase of Klondike Star Mineral Corp. to 1,229,120 (Note 13). The shares issued were previously disclosed at 1,229,345. The recast had no impact on the statement of financial position, results of operations, cash flows, or loss per share.

KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended February 29, 2016 and February 28, 2015
(Expressed in Canadian dollars)

		2016		2015
Operating activities				
Net loss for the year	$	(467,867)	$	(1,532,184)
Items not involving cash:				
Depreciation		62,986		121,266
Share-based compensation (Note 12(d))		-		270,350
Share of loss in joint venture investment		-		33,061
Loss (gain) on disposal of equipment (Note 7)		(48,309)		16,511
Gain on disposition of joint venture		-		(195,624)
Writedown of equipment (Note 7)		-		524,537
Gain on settlement of debt		-		(17,183)
Loss (gain) on sale of available-for-sale investments		(23,300)		43,943
Other income		(40,000)		-
Changes in non-cash working capital items:				
Amounts receivable		27,437		109,898
Prepaid expenses and deposits		14,526		(62,001)
Due to related parties		-		(33,150)
Accrued interest		-		(11,781)
Trade and other payables		7,527		(490,818)
Cash used in operating activities		(467,000)		(1,223,175)
Financing activities				
Proceeds on loans		-		229,000
Repayment of loans		-		(729,000)
Shares issued for cash (Note 12(b))		416,500		2,690,266
Shares issue costs (Note 12(b))		(6,998)		(81,483)
Repayment of mortgage (Note 10)		(176,000)		(54,000)
Cash provided by financing activities		233,502		2,054,783
Investing activities				
Proceeds on sale of equipment		52,476		116,601
Exploration and evaluation asset expenditures		(925,697)		(374,525)
Proceeds on gold sales		526,994		216,341
Cash acquired on acquisition of subsidiaries (Notes 9, 13)		-		1,387
Investment in joint venture (Note 9)		-		87,572
Sale of available-for-sale investments		161,115		3,933
Purchase of term deposit		(15,000)		-
Cash (used in) provided by investing activities		(200,112)		51,309
Change in cash and cash equivalents during the year		(433,610)		882,917
Cash and cash equivalents, beginning of year		956,598		73,681
Cash and cash equivalents, end of year	$	522,988	$	956,598
Interest paid	$	1,320	$	66,741
Taxes paid	$	-	$	-

Supplemental Cash flow information (Note 20)

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 3123, 595 Burrard Street, Vancouver, British Columbia, Canada, V7X 1J1 and the Company's registered and records office is located at suite 2500 – 700 West Georgia St., V6Y 1B3.

These 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 year ended February 29, 2016, the Company reported a loss of $467,867 and an accumulated deficit of $55,750,073 at that date. The Company had working capital of $544,614 and cash of $522,988 at February 29, 2016.

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. Subsequent to February 29, 2016, the Company closed non-brokered private placements for gross proceeds of $121,640 in flow through shares and $1,578,960 in non-flow through units (Note 12(b)). 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.

Subsequent to February 29, 2016, the Company announced that it had entered into a property purchase agreement (the "Agreement") with Rise Resources Inc. ("Rise") for the acquisition by Rise of 100% of a portfolio of certain of the Company's British Columbia properties (Note 8).

These 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

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 statements have been prepared on a historical cost basis except for cash flow 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 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 translated using the exchange rate as at the date of the initial transaction.

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.

Non-controlling interest in the net assets of the consolidated subsidiaries are identified separately from the Company's equity. The non-controlling interest consist of the non-controlling interest's portion of net assets and profit or loss.

The Company's subsidiaries are as follows:

Name	**Principal Activity**	**Place of Incorporation**	**Ownership %**
Lonestar Gold Inc.	Exploration company (inactive)	Canada	94%
Klondike Star Mineral Corp.	Exploration company (inactive)	USA	72%

On August 10, 2015, 46799 Yukon Inc., KG46 Holdings Ltd., and Klondike Gold Corp. were amalgamated as one company under the name Klondike Gold Corp.

2. BASIS OF PRESENTATION (continued)

e) Financial Instruments

Financial assets

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

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

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.

2. BASIS OF PRESENTATION (continued)

e) Financial Instruments (continued)

They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or 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.

f) Comprehensive Income (Loss)

Other comprehensive income (loss) 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 equity.

g) Cash and Cash Equivalents

Cash consists of balances with banks, and cash equivalents consist of term deposits with maturities within three months from the date of issue, or that are 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 equivalents with institutions of high credit worthiness.

h) Exploration and Evaluation Assets

Exploration and evaluation assets 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.

Proceeds received from the sale of gold from the Company's Placer claims in the Yukon (Note 9), are recorded as a reduction to the carrying value of exploration and evaluation assets as this activity is pertinent to the exploration and evaluation process. When the proceeds exceed the carrying value, the excess is recorded in profit or loss in the period the excess is received.

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. BASIS OF PRESENTATION (continued)

h) 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.

i) 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 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 profit or loss.

2. BASIS OF PRESENTATION (continued)

j) Property and Equipment

Property and 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	3-5 years straight line basis
Building	20 years straight line basis

An item of property and 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.

k) Impairment of Non-Financial Assets

Impairment tests on non-financial assets, including exploration and evaluation assets are performed 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.

The impairment test is carried out at the cash-generating unit level, which is the smallest identifiable group of assets 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 profit or loss. An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. The Company's exploration and evaluation asset policy in Note 2(i) above specifically discusses impairment factors.

2. BASIS OF PRESENTATION (continued)

l) 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 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.

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 (Note 9).

m) 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. Discount rates, using a pre-tax rate that reflects the time value of money, are used to calculate the present value. Over time, the discounted liability is increased for the changes in present value based on current market discount rates, and may change due to the amount or timing of the underlying cash flows needed to settle the obligation.

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.

At February 29, 2016 and February 28, 2015, the Company did not incur any such obligations.

2. BASIS OF PRESENTATION (continued)

n) 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 exploration and evaluation assets 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 Venture Exchange 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 using the residual value method which first allocates value to the more easily measurable component, common shares, as determined by the closing market price on the date of announcement. The balance is then allocated to the attached warrants.

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 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 profit or loss as other income.

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 stock 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 stock options that are expected to vest.

2. BASIS OF PRESENTATION (continued)

n) Share Capital (continued)

iii) Share-based payments (continued)

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 deferred financing costs. Share issuance costs related to uncompleted share subscriptions are charged to profit or loss.

o) Income Taxes

Income tax expense comprises 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.

2. BASIS OF PRESENTATION (continued)

p) 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 require management to make certain estimates, judgments 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. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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 future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions, and other factors including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Impairment of assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs of disposal. Determining the value in use requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. No impairments of non-financial assets have been recorded for the year ended February 29, 2016 (February 28, 2015: $524,537).

Useful life of property and equipment

Property and equipment is depreciated over the estimated useful life of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of depreciation recorded during the year and the carrying value of property and equipment. Total carrying value of property and equipment at February 29, 2016, was $406,333 (February 28, 2015: $473,486).

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES (continued)

Share-based compensation

Management is required to make certain estimates when determining the fair value of stock option awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in profit or loss. For the year ended February 29, 2016, the Company recognized nil in share-based compensation expense (February 28, 2015: $270,350).

Critical Accounting Judgments

In the preparation of these consolidated financial statements management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements.

Mineral properties under exploration

The carrying amount of the Company's exploration and evaluation assets properties does not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development and upon future profitable production or proceeds from the disposition of the mineral properties themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its properties or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

Income taxes

The measurement of income taxes payable and deferred income tax assets and liabilities requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements.

4. NEW AND FUTURE ACCOUNTING STANDARDS AND INTERPRETATIONS

The Company has not applied the following new and revised IFRSs and IFRICs 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, 2018. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

(Expressed in Canadian dollars)

4. NEW AND FUTURE ACCOUNTING STANDARDS AND INTERPRETATIONS (continued)

IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9, effective for annual periods beginning on or after January 1, 2018.

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

5. RESTRICTED CASH

The Company has a corporate credit card with a limit of $25,000. As collateral for the credit card, the Company maintains one-year term deposits of $10,000 (February 28, 2015 - $10,000) and $15,000 (February 28, 2015 - nil) earning interest at an annual rate of 0.50% with maturity dates of February 21, 2017 and February 28, 2017, respectively. The Company has the ability to cancel its credit cards and receive the term deposits in full.

6. AVAILABLE-FOR-SALE INVESTMENTS

	As of February 29, 2016		As of February 28, 2015	
	Shares	**Fair Value**	Shares	Fair Value
Medgold Resources Corp.	**2,373,918**	**$ 130,565**	3,147,418	$ 267,531
PJX Resources Inc.	**330,000**	**49,500**	700,000	140,000
		$ 180,065		$ 407,531

KLONDIKE GOLD CORP.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED FEBRUARY 29, 2016 AND FEBRUARY 28, 2015
(Expressed in Canadian dollars)

7. PROPERTY AND EQUIPMENT

Cost	Vehicles	Computers	Machinery/ Equipment	Building	Total
Balance, February 28, 2014	$ 141,229	$ 28,583	$ 148,729	$ -	$ 318,541
Additions	2,427	-	-	-	2,427
Disposals	(48,588)	-	(116,368)	-	(164,956)
Acquisition of KG46 Holdings Ltd. (Note 9)	26,099	-	856,562	380,000	1,262,661
Writedown of equipment	(121,167)	-	(661,600)	-	(782,767)
Balance, February 28, 2015	-	28,583	227,323	380,000	635,906
Disposals	-	-	(5,000)	-	(5,000)
Balance, February 29, 2016	**$ -**	**$ 28,583**	**$ 222,323**	**$ 380,000**	**$ 630,906**

Accumulated depreciation	Vehicles	Computers	Machinery/ Equipment	Building	Total
Balance, February 28, 2014	$ 71,062	$ 17,696	$ 74,892	$ -	$ 163,650
Depreciation	33,059	9,401	74,056	4,750	121,266
Disposals	(23,526)	-	(41,340)	-	(64,866)
Acquisition of KG46 Holdings Ltd. (Note 9)	14,521	-	152,829	33,250	200,600
Writedown of equipment	(95,116)		(163,114)	-	(258,230)
Balance, February 28, 2015	-	27,097	97,323	38,000	162,420
Depreciation	-	1,486	42,500	19,000	62,986
Disposals	-	-	(833)	-	(833)
Balance, February 29, 2016	**$ -**	**$ 28,583**	**$ 138,990**	**$ 57,000**	**$ 224,573**

Carrying amount	Vehicles	Computers	Machinery/ Equipment	Building	Total
Balance, February 28, 2015	$ -	$ 1,486	$ 130,000	$ 342,000	$ 473,486
Balance, February 29, 2016	**$ -**	**$ -**	**$ 83,333**	**$ 323,000**	**$ 406,333**

(1) During the year ended February 29, 2016, the Company sold equipment with a net book carrying value of $4,167 for gross proceeds of $52,476 resulting in a gain on sale of equipment of $48,309.

(2) During the year ended February 25, 2015, the Company sold equipment with a net book carrying value of $100,090 for gross proceeds of $116,601 resulting in a gain on sale of equipment of $16,511.

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS

	Placer Claims	Yukon Claims	Total
	$	$	$
Acquisition costs:			
Balance, February 28, 2015 and February 29, 2016	1,167,436	3,118,843	4,286,279
Exploration costs:			
Balance, February 28, 2015	25,494	3,628,779	3,654,273
Consulting & wages	-	243,102	243,102
Camp supplies	-	92,051	92,051
Fuel	-	28,429	28,429
Lab analysis	-	75,503	75,503
Property maintenance	-	70,830	70,830
Drilling	-	196,577	196,577
Surveying	-	193,292	193,292
Travel	-	25,913	25,913
Balance, February 29, 2016	25,494	4,554,476	4,579,970
Royalty payments received:			
Balance, February 28, 2015	(216,341)	-	(216,341)
Gold sales (Note 9)	(526,994)	-	(526,994)
Balance, February 29, 2016	(743,335)	-	(743,335)
Total costs:			
Balance, February 29, 2016	449,595	7,673,319	8,122,914

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS (continued)

	Placer Claims (Note 9)	Yukon Claims	Total
	$	$	$
Acquisition costs:			
Balance, February 28, 2014	-	1,364,222	1,364,222
Additions	-	55,773	55,773
Acquisition of Klondike Star (Note 13)	-	1,698,848	1,698,848
Acquisition of KG46 Holdings Ltd. (Note 9)	1,167,436	-	1,167,436
Balance, February 28, 2015	1,167,436	3,118,843	4,286,279
Exploration costs:			
Balance, February 28, 2014	-	3,424,043	3,424,043
Consulting & wages	15,484	130,296	145,780
Camp supplies	-	11,837	11,837
Fuel	-	6,823	6,823
Lab analysis	-	11,058	11,058
Property maintenance	10,010	38,279	48,289
Travel	-	6,443	6,443
Balance, February 28, 2015	25,494	3,628,779	3,654,273
Royalty payments received:			
Balance, February 28, 2014	-	-	-
Gold sales (Note 9)	(216,341)	-	(216,341)
Balance, February 28, 2015	(216,341)	-	(216,341)
Total costs:			
Balance, February 28, 2015	976,589	6,747,622	7,724,211

a) B.C. Claims

The Company holds title to a portfolio of mineral claims in south-eastern B.C., prospective for gold and base metals. The carrying value of which was written-down to nil during the year ended February 28, 2014. The Company retains a royalty equal to 1% of Net Smelter Returns (“NSR”) from minerals produced from the property.

Subsequent to February 29, 2016, the Company announced that it had entered into a property purchase agreement (the “Agreement”) with Rise for the acquisition by Rise of 100% of a portfolio of certain of the Company’s British Columbia properties.

The terms for the Agreement are as follows:

- Payment within 60 days of signing of $50,000 in cash, and payment of 1,500,000 Rise shares and 1,500,000 Rise warrants to purchase 1,500,000 shares for a period of 24 months (collectively the “First Closing”).

8. EXPLORATION AND EVALUATION ASSETS (continued)

- Payment upon the one-year anniversary of First Closing of $150,000 in cash, and payment of 2,000,000 Rise shares and 1,000,000 Rise warrants to purchase 1,000,000 shares for a period of 24 months.

- Klondike will retain a 2.0% NSR and Rise will have the right to purchase 50% of this royalty for $1,000,000 million at any time after the First Closing.

b) Ontario Claims

The Company holds a 100% interest in the property subject to a 2% NSR of which half can be purchased for $1,000,000. The carrying value was written-down to nil during the year ended February 28, 2014.

c) Yukon Claims

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

The Company holds a 100% 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.

On June 6, 2011, the Company along with Klondike Star Mineral Corp. (“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.

On January 12, 2012, the Company acquired by way of a share exchange 80% of Lonestar (Note 14), with the remaining 20% held by KSMC. On July 18, 2014, the Company completed the acquisition of 72% of the outstanding shares of KSMC (Note 13). The purpose of the acquisition was to enable Klondike Gold to consolidate ownership of the gold properties in the Yukon.

d) Portuguese Exploration Licenses

The Company previously held five exploration licenses prospective for gold from the Portuguese Department of Energy & Geology.

During the year ended February 28, 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 which was received during fiscal 2014 and 2015 in the form of $150,000 cash and $350,000 in common shares of Medgold.

The Company retains a 2% NSR over the Portugese exploration licenses, of which Medgold Resource Ltd. may purchase all or parts of the NSR for $1,000,000 per percentage point.

(Expressed in Canadian dollars)

9. ACQUISITION OF KG46 HOLDINGS LTD.

During the year ended February 28, 2013, the Company and 46799 Yukon Inc. (“Yukon Inc.”) entered into a joint arrangement agreement. Each company owned 50% of KG46 Holdings Ltd. (“KG46”), the joint venture company (“Joint Venture”) which operates a placer mining operation south of Dawson City, Yukon. 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.

On September 16, 2014, the Company closed the acquisition of Yukon Inc. in consideration for the issuance of 6,435,000 common shares of the Company at a price of $0.20 per share. As a result of the acquisition, the Company now holds an undivided 100% interest in the property subject to an existing third party 5% royalty on production of gold or other minerals.

Prior to September 16, 2014, the Company’s interest in the Joint Venture was reflected as an Investment in Joint Venture, all project related costs were recorded in KG46 and the Company accounted for its interest in the joint venture under the equity method.

Equity Investment Continuity

		March 1, 2014 to September 16, 2014		Year ended February 28, 2014
Opening balance	**$**	**540,026**	$	126,657
Current period (repayments) contributions		**(87,572)**		814,037
Share of loss in joint venture investment		**(33,061)**		(400,668)
Closing balance	**$**	**419,393**	$	540,026

The transaction was accounted for as a business combination with the Company identified as the acquirer. As KG46 was previously accounted for using the equity method, upon acquiring control the difference between the carrying value at the time of the acquisition and the fair value, in the amount of $195,624, was recognized as a gain on the consolidated statement of loss and comprehensive loss. The results of KG46 after the acquisition date have been consolidated in the Company’s financial results.

The following table summarizes the consideration paid and the fair values of the assets acquired and liabilities assumed, recognized as of the acquisition date:

(Expressed in Canadian dollars)

9. ACQUISITION OF KG46 HOLDINGS LTD (continued)

Purchase price		
Fair value of previously held equity interest	$	615,017
Consideration		1,287,000
Total purchase price	$	1,902,017

Fair value of assets acquired and liabilities assumed		
Cash	$	280
Amounts receivable		14,562
Equipment		1,062,061
Exploration and evaluation assets		1,116,498
Amounts payable		(61,384)
Mortgage payable		(230,000)
	$	1,902,017

Assignment of Lease on Indian River Property

During the year ended February 28, 2015, 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, subject to a minimum annual payment of 100 ounces raw gold, or cash equivalent.

As of February 29, 2016, the Company has received $743,335 in royalty payments, which are netted against capitalized exploration and evaluation asset costs in the consolidated statements of financial position.

Subsequent to February 29, 2016, the lease agreement was not renewed and the Assignee removed equipment and completed reclamation of mined areas.

10. MORTGAGE PAYABLE

On July 15, 2012, KG46 Holdings Ltd. entered into a $380,000 mortgage agreement. The agreement required quarterly payments of $18,000, over 3 years, with the balance remaining to be paid within 30 days after the end of term - July 15, 2015. The mortgage was carried at 3% interest per annum. During the year ended February 29, 2016, the remaining principal of $176,000 was paid in full and interest payments of $1,320 (February 28, 2015 - $14,844) were made.

11. RELATED PARTY BALANCES AND 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 have no specific terms of repayment.

a) During the year ended February 29, 2016, the Company was charged consulting fees of $138,000 (February 28, 2015 – $138,500) by Atlantic Zinc Resources Ltd., a company owned by the CEO of the Company. As at February 29, 2016, $12,075 (February 29, 2015 - $12,075) was payable to Atlantic Zinc Resources Ltd.

b) During the year ended February 29, 2016, the Company was charged $124,165 (February 28, 2015 – $148,153) by Fiore Management and Advisory Corp. ("Fiore"), a company whose CEO is a director of the Company, for corporate administration services included in consulting and wages. Share-based compensation of nil (2015 - $36,047) was recorded on stock options granted to Fiore.

Key Management Compensation

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Included in share-based compensation for the year ended February 29, 2016 was nil for stock options granted to directors and officers of the Company (February 28, 2015 - $194,462). As at February 29, 2016, $237 (February 28, 2015 – nil) was included in trade and other payables owing to the CEO of the Company for expense reimbursements.

12. SHARE CAPITAL

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, stock option, and per share amounts in these consolidated financial statements have been retrospectively restated to present post-consolidation amounts.

a) Authorized: Unlimited common shares without par value.

b) During the year ended February 29, 2016, the Company closed a non-brokered private placement of 750,000 in flow through shares at a price of $0.10 per share for gross proceeds of $75,000 and 3,415,000 in non-flow through units at a price of $0.10 per unit for gross proceeds of $341,500. Each non-flow through unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.15 per common share until December 23, 2017. Share issue costs of $6,998 were incurred in relation to the private placement.

12. SHARE CAPITAL (continued)

During the year ended February 28, 2015, the Company closed a non-brokered private placement of 3,125,000 flow through shares at a price of $0.20 per share for gross proceeds of $625,000 and 9,568,082 non-flow through units at a price of $0.18 per unit for gross proceeds of $1,722,255. Each non-flow through unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.20 per common share until November 17, 2017.

During the year ended February 28, 2015, the Company closed a non-brokered private placement of 875,000 flow through shares at a price of $0.20 per share for gross proceeds of $175,000 and 933,395 non-flow through units at a price of $0.18 per unit for gross proceeds of $168,011. Each non-flow through unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.20 per common share until December 15, 2017.

Share issue costs of $81,483 were incurred in relation to the private placements closed during the year ended February 28, 2015.

The Company uses the residual value method to value warrants associated with unit financings. As the private placements which closed during the years ended February 29, 2016, and February 28, 2015, were not issued at a premium to the market price of the Company's shares, no value has been attributed to the warrants.

A flow-through premium liability of $40,000 was allocated to the flow-through portion of the private placement closed during the year ended February 28, 2015, based on the difference between the issuance price and the market price of the Company's shares. During the year ended February 29, 2016, the Company incurred eligible expenditures in excess of $800,000 and thus the flow-through premium was fully amortized to the statement of loss and comprehensive loss for the year ended February 29, 2016, as other income.

Subsequent to February 29, 2016, the Company closed a non-brokered private placement of 760,250 flow through shares at a price of $0.16 per share for gross proceeds of $121,640 and 2,706,857 non-flow through units at a price of $0.14 per unit for gross proceeds of $378,960. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at an exercise price of $0.20 per common share until April 4, 2019. Finders' fees of an aggregate of 58,571 units were paid in relation to the private placement.

Subsequent to February 29, 2016, the Company closed a non-brokered private placement of 4,000,000 non-flow through units at a price of $0.30 per unit for gross proceeds of $1,200,000. Each unit consists of one common share and one half of a common share purchase warrant. Each whole warrant entitles the holder to purchase one common share at an exercise price of $0.35 per common share until November 30, 2018.

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

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

	Number of Warrants	Weighted Average Exercise Price
Balance, February 28, 2014	427,083	$ 4.10
Issued	12,657,265	0.34
Expired	(73,333)	15.00
Balance, February 28, 2015	13,011,015	0.38
Issued	3,415,000	0.15
Expired	(293,750)	2.00
Balance, February 29, 2016	16,132,265	$0.30

As at February 29, 2016, the following share purchase warrants were outstanding:

Number of Warrants	Weighted Average Exercise Price	Expiry Date
60,000	$1.20	October 30, 2016
2,155,788	1.00	January 18, 2017
9,568,082	0.20	November 17, 2017
933,395	0.20	December 15, 2017
3,415,000	0.15	December 23, 2017
16,132,265	$0.30	

As at February 29, 2016, the weighted average remaining contractual life of the share purchase warrants was 1.63 years and the weighted average exercise price was $0.30 (February 28, 2015 - 2.50 years and $0.38).

During the year ended February 29, 2016, 3,415,000 share purchase warrants were issued pursuant to the private placement discussed in note 12(b). The warrants are exercisable at a price of $0.15 per common share until December 23, 2017.

During the year ended February 29, 2016, 293,750 share purchase warrants with an exercise price of $2.00 expired.

During the year ended February 28, 2015, 2,155,788 share purchase warrants were issued pursuant to the settlement of outstanding amounts payable of KSMC of $1,157,335, exercisable at $1.00 until January 18, 2017.

During the year ended February 28, 2015, 9,568,082 share purchase warrants were issued pursuant to the private placement discussed in note 12(b). The warrants are exercisable at a price of $0.20 per common share until November 17, 2017.

During the year ended February 28, 2015, 933,395 share purchase warrants were issued pursuant to the private placement discussed in note 12(b). The warrants are exercisable at a price of $0.20 per common share until December 15, 2017.

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

During the year ended February 28, 2015, 73,333 share purchase warrants expired.

Subsequent to February 29, 2016, 2,765,428 share purchase warrants were issued pursuant to the private placement discussed in note 12(b). The warrants are exercisable at a price of $0.20 per common share until April 4, 2019.

Subsequent to February 29, 2016, 2,000,000 share purchase warrants were issued pursuant to the private placement discussed in note 12(b). The warrants are exercisable at a price of $0.35 per common share until November 30, 2018.

Subsequent to February 29, 2016, 466,667 share purchase warrants were exercised for gross proceeds of $78,333.

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

	Number of Options		Weighted Average Exercise Price
Balance, February 28, 2014	639,266	$	1.60
Expired / Cancelled	(639,266)		(1.50)
Granted	2,850,000		0.12
Balance, February 28, 2015 and February 29, 2016	2,850,000	$	0.12

During the year ended February 28, 2015, 2,850,000 incentive stock options were granted to directors, officers, employees, charities, and consultants of the Company. The options are exercisable at a price of $0.12 per share until December 16, 2024. The fair value of the stock options was estimated on the date of grant in the amount of $270,350 using the Black-Scholes valuation model with the following assumptions i) exercise price per share of $0.12; ii) expected share price volatility of 75%; iii) risk free interest rate of 2.30%; iv) no dividend yield. All of these options vested immediately.

Subsequent to February 29, 2016, the Company granted 1,025,000 incentive stock options to directors, officers, employees, charities, and consultants of the Company. The options are exercisable at a price of $0.19 per common share until April 19, 2026.

The following summarizes stock options outstanding and exercisable as at February 29, 2016:

Number of Options Oustanding and Exercisable	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Expiry Date
2,850,000	$0.12	8.80	December 16, 2024

e) Share-based Compensation

The Company has established a “rolling” Stock Option Plan (the “Plan”). Under the Plan, the number of shares reserved for issuance may not exceed 10% of the total number of issued and outstanding shares and, to any one optionee, may not exceed 5% of the issued shares on a yearly

(Expressed in Canadian dollars)

12. SHARE CAPITAL (continued)

basis. The maximum term of each option shall not be greater than 10 years. The exercise price of each option shall not be less than the market price of the Company's shares at the date of grant. Options granted to Consultants performing Investor Relations Activities shall vest over a minimum of 12 months with no more than 1/4 of such options vesting in any three month period. All other options vest at the discretion of the Board of Directors.

No incentive stock options were granted during the year ended February 29, 2016 (February 28, 2015 – 2,850,000).

f) Flow-Through Expenditure Commitments

As at February 29, 2016, $800,000 of flow-through funds have been spent pursuant to the flow-through financing completed during the year ended February 28, 2015, and as such the Company has met its flow-through commitment in full.

As at February 29, 2016, $75,000 of flow-through expenditures remain to be spent on the flow-through financing completed during the year ended February 29, 2016.

13. ACQUISITION OF KLONDIKE STAR MINERAL CORP.

On July 18, 2014, the Company completed the acquisition of 72% of the outstanding shares of KSMC, a private Delaware company. In consideration for the shares of KSMC the Company issued 1,229,120 common shares.

The acquisition was valued based on the market price of the Company's shares issued of $0.20 and allocated to the net assets of KSMC as follows:

	Number of shares issued	Share value	Fair Value ($)
Klondike Gold Common Shares	1,229,120	$ 0.20	245,869
Allocated to:			
Cash			1,107
Exploration and evaluation assets			1,698,848
Accounts payable			(1,356,688)
Non-controlling interest			(97,398)
			245,869

14. ACQUISITION OF LONESTAR GOLD INC.

On December 29, 2011, the Company completed an exempt take-over bid to acquire an 80% interest in the shares of Lonestar Gold Inc. ("Lonestar") a privately held British Columbia company. The remaining 20% of Lonestar is held by KSMC. On July 18, 2014, the Company acquired 72% of KSMC (Note 13), resulting in a net ownership of 94% in Lonestar. For the year ended February 29, 2016, the loss allocated to non-controlling interests of the subsidiary was nil (February 28, 2015 - $4,534).

(Expressed in Canadian dollars)

15. MANAGEMENT OF CAPITAL

The Company manages its cash and cash equivalents and components of equity 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 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 on deposit in an interest bearing Canadian chartered bank account.

The Company is not subject to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year ended February 29, 2016.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

As at February 29, 2016, 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	522,988	-	-	522,988	522,988
Restricted cash	25,000	-	-	25,000	25,000
Available-for-sale Investments	-	-	180,065	180,065	180,065
Reclamation bond	-	3,500	-	3,500	3,500
Amounts receivable	-	14,173	-	14,173	14,173
	547,988	17,673	180,065	745,726	745,726
Financial liabilities	$	$	$	$	$
Trade and other payables	-	(82,063)	-	(82,063)	(82,063)
Due to related parties	-	(12,075)	-	(12,075)	(12,075)
	-	(94,138)	-	(94,138)	(94,138)

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial Instrument Classifications

The Company has classified cash and cash equivalents and restricted cash as fair value through profit or loss financial assets. Available-for-sale investments are classified as available for sale. Amounts receivable, and reclamation bonds are classified as loans and receivables. Trade and other payables, 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

The fair values of the Company's reclamation bonds, amounts receivable, trade and other payables, and due to related parties approximate their carrying value, due to their short-term maturities. The Company's cash and cash equivalents, restricted cash, and available-for-sale investments are measured at fair value using Level 1 inputs.

As at February 29, 2016, the Company's risk exposures and the impact on the Company's financial instruments are summarized below:

a) Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk is attributable to cash and cash equivalents and amounts receivable. Cash and cash equivalents are held with large Canadian banks. Management believes the risk of loss to be remote. The Company's amounts receivable is primarily comprised of amounts owing from the Government of Canada for input tax credits receivable. Accordingly, the Company does not believe it is subject to significant credit risk.

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. Moreover, the Company manages liquidity risk by actively pursuing additional share capital issuances to settle its obligations in the normal course of its operating, investing and financing activities, and through the use of cash proceeds from gold sales (Note 9). As at February 29, 2016, the Company had a cash and cash equivalent balance of $522,988 to settle current liabilities of $94,138.

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

c) Market risk

Market risk is the risk 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: interest rate risk, currency risk, and price risk:

i) Interest rate risk

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company holds its cash and cash equivalents in bank accounts that earn variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values of the Company's cash and cash equivalent balances as at February 29, 2016. The Company manages interest rate risk by maintaining an investment policy for short-term investments included in cash equivalents. This policy focuses primarily on preservation of capital and liquidity. The Company monitors the investments it makes and is satisfied with the credit rating of its banks. The Company does not have any interest bearing debt.

ii) Foreign currency risk

The Company does not transact in currencies other than the Canadian dollar, and is therefore not subject to foreign currency risk.

iii) 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.

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

(Expressed in Canadian dollars)

17. COMMITMENTS

Operating Lease Commitment

The Company leases office premises with a remaining lease term expiring November 30, 2016. The Company's commitment for future minimum payments in respect of the operating lease commitment is as follows:

	February 29, 2016
Short-term portion of the lease (<1 Year)	**$ 17,864**

18. MISCELLANEOUS INCOME

During the year ended February 29, 2016, the Company received $81,743 (2015 - $2,372) in rental income relating to rental of property to a third party.

19. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2016	2015
Net loss for the year	$467,867	$1,532,184
Income tax recovery at statutory rates	(122,000)	(398,000)
Effect of change in tax rates, other, change in estimate	(272,000)	(4,867,000)
Permanent difference	12,000	141,000
Flow-through renunciations	20,000	208,000
Share issue costs	(2,000)	-
Change in unrecognized deductible temporary differences	388,000	4,916,000
Total income tax expense (recovery)	-	-

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

(Expressed in Canadian dollars)

19. INCOME TAXES (continued)

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

	2016	Expiry Date Range	2015	Expiry Date Range
Temporary Differences				
Marketable Securities	170,000	No expiry date	38,000	No expiry date
Capital assets	792,000	No expiry date	730,000	No expiry date
Non-capital loss carry forwards	10,544,000	2026 to 2036	10,039,000	2026 to 2035
Capital loss carry forwards	2,692,000	No expiry date	2,692,000	No expiry date
Resource deductions	7,196,000	No expiry date	6,345,000	No expiry date
Investment tax credit	107,000	2032 to 2034	107,000	2032 to 2034
Share issue costs	69,000	2037 to 2040	100,000	2036 to 2039
Canadian eligible capital (CEC)	82,000	No expiry date	82,000	No expiry date

20. SUPPLEMENTAL CASH FLOW INFORMATION

There were no non-cash investment or financing activities during the year ended February 29, 2016.

During the year ended February 28, 2015, the Company issued 1,229,120 common shares pursuant to the acquisition of KSMC at a deemed price of $0.20 for total consideration of $245,869.

During the year ended February 28, 2015, the Company issued 2,155,788 share purchase warrants pursuant to the settlement of outstanding amounts payable of KSMC of $1,157,335.

During the year ended February 28, 2015, the Company issued 6,435,000 common shares pursuant to the acquisition of the remaining 50% of KG46 Holdings Ltd. at a deemed price of $0.20 for total consideration of $1,287,000.

During the year ended February 28, 2015, the Company exchanged equipment in the amount of $49,753 for two Yukon mineral claims. During the year ended February 28, 2015, the Company received 2,347,418 shares of Medgold in settlement of a $250,000 receivable.

Interest paid during the year ended February 28, 2015, was comprised of interest on notes payable of $51,897, and interest paid on mortgage payable of $14,844 (Note 10).