KLONDIKE GOLD CORP.
Form 51-102F1
Management Discussion and Analysis

For the Year Ended February 28, 2011

This Management Discussion and Analysis ("MD&A") should be read in conjunction with the audited consolidated financial statements of Klondike Gold Corp ("Klondike Gold" or the "Company") for the year ended February 28, 2011 and the audited consolidated financial statements for the year ended February 28, 2010, prepared in accordance with Canadian generally accepted accounting principles, and is publicly available on SEDAR at www.sedar.com.

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

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

This MD&A has been prepared as of June 27, 2011. All amounts are expressed in Canadian dollars unless otherwise stated.

Forward Looking Information

This MD&A includes some statements that may be considered "forward-looking statements". All statements in this discussion that address the Company's expectations about future exploration and development are forward-looking statements. Although the Company believes the expectations presented in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements. Factors that could cause actual results to differ materially from those in forward-looking statements include market prices, exploration successes, availability of capital and financing, and general economic, market, and business conditions. Readers are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

Risks and Uncertainties

The Company is subject to a number of risks and uncertainties due to the nature of its business. The Company's exploration and development activities expose the Company to various financial and operational risks that could have a significant impact on its level of operating cash flows in the future. Readers are advised to study and consider risk factors stressed below.

The following are identified as main risk factors that could cause actual results to differ materially from those stated in any forward-looking statements made by, or on behalf of, the Company.

Financing

The Company's future financial success depends on the ability to raise additional capital from the issue of shares or the discovery of properties which could be economically justifiable to develop. Such development could take years to complete and resulting income, if any, is difficult to determine. The sales value of any mineralization potentially discovered by the Company is largely dependent upon factors beyond the Company's control, such as the market value of the products produced.

General Resource Exploration Risks and Competitive Conditions

The resource exploration industry is an inherently risky business with significant capital expenditures and volatile metals markets. The marketability of any minerals discovered may be affected by numerous factors that are beyond the Company's control and which cannot be predicted, such as market fluctuations, mineral markets and processing equipment, and changes to government regulations, including those relating to royalties, allowable production, importing and exporting of minerals, and environmental protection. This industry is intensely competitive and there is no guarantee that, even if commercial quantities are discovered, a profitable market will exist for their sale. The Company competes with other junior exploration companies for the acquisition of mineral claims as well for the engagement of qualified contractors. Metal prices have fluctuated widely in recent years, and they are determined in international markets over which the Company has no influence.

Governmental Regulation

Regulatory standards continue to change, making the review process longer, more complex and therefore more expensive. Exploration and development on the Company's properties are affected by government regulations relating to such matters as environmental protection, health, safety and labour, mining law reform, restrictions on production, price control, tax increases, maintenance of claims, and tenure. There is no assurance that future changes in such regulations couldn't result in additional expenses and capital expenditures, decreasing availability of capital, increased competition, reserve uncertainty, title risks, and delays in operations. The Company relies on the expertise and commitment of its management team, advisors, employees and contractors to ensure compliance with current laws.

Company Overview

Klondike Gold is a Canadian listed public company with its shares traded on the TSX Venture Exchange under the symbol "KG" as a Tier 2 company.

The Company is a resource exploration stage company engaged in the acquisition, and exploration of mineral properties. For the funding of property acquisitions and exploration that the Company conducts, the Company depends on the issuance of shares from the treasury to investors and does not use long term debt. Once a body of commercial ore is found, the Company may offer to a major mining company the opportunity to acquire an interest in a property in return for funding by the major mining company, of all or part of the exploration and development of the property. The Company currently has no revenues from mineral producing operations and holds properties in British Columbia, Ontario, and the Yukon.

Additional information relating to the Company can be found on SEDAR at www.sedar.com and also on the Company's website at www.klondikegoldcorp.com.

Overall Performance

Acquisition and exploration expenses decreased slightly from $628,585 in 2010 to $422,431 in 2011. During the year ended February 28, 2011, the Company spent $459,018 on mineral property exploration costs and recovered $48,337 of acquisition costs on the Cranbrook Claims. Significant expenditures on mineral properties were with respect to drilling and geology and mapping: $256,095 and $113,289 respectively, primarily on the Cranbrook Claims.

Properties

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.

Sedex Group, Cranbrook Claims, BC

Irishman of the Moyie West Block

The Moyie West Block comprises the Irishman properties. The Panda basin is considered to be one of the more prospective exploration targets in the Aldridge Formation. Two holes at the north end of the basin, 1.5 km apart, discovered minor stratabound mineralization with total sulphides, lead/zinc ratios and intensity of alteration increasing to the northeast.

Exploration in the Panda, Payday and SMC areas has included a number of soil surveys, both gravity and magnetic, prospecting, geological mapping and diamond drilling. Several holes were drilled in the Panda area prior to 2004. Only two of these, approximately 2.5 km apart, have intersected the Sullivan horizon.

In 2005, two holes were completed in the basin. The first, Panda-04-1E, defined a composite Sullivan intersection of 85 metres with a variety of sedimentary facies and mineralization represented by 15m containing 129 ppm lead and 449 ppm zinc and 5 metres 941 ppm zinc. A second hole was collared about 3.25 kilometres south at the headwaters of Irishman Creek. A comparison of these holes indicated increasing values to the south. As described by D. Anderson (P.Eng.), who was the project geologist, the Irish 05-01 hole, located farther south and closer to the southwest-trending Moyie fault, intersected a thick (132 metres) and complex assemblage of sedimentary facies at Sullivan time that is cut at depth by a gabbro-granofels intrusion similar to the footwall at the Sullivan Mine. The hole was stopped at 1,422.2 metres in the intrusion. The best visible mineralization of galena, sphalerite and pyrrhotite, occurring as disseminations, patches and fracture fillings, was sampled with an interval of 36 metres containing 689 ppm lead and 1297 ppm zinc. Included within this interval is 6.0 metres of 1,717 ppm lead and 2725 ppm zinc. The highest grade, a one-metre sample, ran 0.29% lead and 0.39% zinc. Similar but somewhat weaker mineralization occurs within the fragmental below, down to the top of the intrusion.

In October 2008 the Company commenced a major drilling program on the Irishman property to further explore the Sullivan horizon and in May 2009 the Company announced highly encouraging results from a drilled hole that intersected 155 meters of the prospective Sullivan horizon at the Irishman Property. The Irishman hole, completed to a depth of 1520 meters, tested the Sullivan horizon at the south end of the Panda basin, a north-trending structural basin similar to the Sullivan basin hosting the past-producing Sullivan Mine, 40 km to the north. The 155 meters of Sullivan horizon intersected by the Irishman drill-hole exhibit many characteristics of exhalative activity, typical of the distal fringes of Sedex mineralization in a basin setting. This favourable horizon comprises mainly massive sulphide fragmentals with zones of alteration and visible sulphides (pyrrhotite, sphalerite and galena) mineralization.

The drilled hole represents the thickest Sullivan-time interval intersected to date. The work programs are under the direction of Trygve Hoy, Ph.D. P.Eng., a former provincial government geologist who is now a world-recognized expert on the setting and controls for Sullivan type deposits in the Proterozoic Purcell Basin of southern BC. “This is an exciting drill hole, the best we have ever done and probably the best that has ever been drilled in the Purcell basin outside of the Sullivan area,” stated Dr. Hoy. Selected assays of the mineralized intervals are given below:

Sample	Depth (m)	Interval (m)	Zn ppm	Pb ppm	Ag ppm	Cd ppm
866328	1414.4 m	0.6 m	785	4137	1.2	9.4
866331	1417.3 m	0.33 m	2168	6861	4.7	24.5
866337	1424.0 m	1.0 m	2511	3286	6.7	11.7
866339	1426.0 m	1.0 m	3923	4769	9.1	14.7
866340	1427.0 m	1.0 m	2764	5167	7.3	17.2
866348	1451.2 m	1.0 m	161.1	2325	0.5	7.6
866358	1466.0 m	1.0 m	65.1	4649	0.8	26.3
866364	1505.7 m	1.8 m	775	3376	0.8	7.8

Cranbrook Claims, British Columbia

Clubine Property

During the fourth quarter of the previous fiscal year, the Company received drilling results of the drill program on the Clubine property (part of the Cranbrook Claims). Based on results from 1989 work, the Company drilled both above and below the Number 5 level for gold zones discovered in underground workings and to determine strike and depth of surface mineralized structures.

Assay results from the first of nine holes showed that drilling intersected a prominent, steeply dipping, north-trending shear zone, characterized by quartz veining, sulphide mineralization, and locally high gold and silver content. Assay results from mineralized sections in the first hole show the central part of an approximate 1 meter thick vein section containing 148 g/tonne gold and 203 g/tonne silver across 0.2 meters and a second lower vein containing 79 g/tonne gold and 110 g/tonne silver across 0.36 meters.

Sawmill Creek – Quartz Mountain

Many features of the Sawmill Creek area suggest that it represents a much larger "iron-oxide gold-copper" target. The presence of felsic intrusions, elevated gold values associated with these intrusions, a number of occurrences of hematite breccias with visible copper mineralization, and local high grade gold-silver plus base metal quartz veins, support this model. Furthermore, regional structural controls, key elements of iron-oxide gold deposits, are present in the Sawmill Creek area. It is near the intersection of two major structural trends: the two main vein showings, and a third occurrence to the south, are along a north-trending structure near its intersection with the St. Mary fault, a major east-trending structure that has had episodic movements from latest Proterozoic through to late Mesozoic time.

Four exploratory holes were drilled on the property in late 2007. Most of the holes were widely spaced, targeting either known surface mineralization, extensive alteration and structure, or a geophysical EM anomaly. The first hole intersected highly altered sediments throughout its 357-metre length, with some thin intervals of brecciation with minor hematite and sulphides including chalcopyrite. Three separate zones of highly altered, brecciated rock containing minor pyrite were submitted for analyses.

Holes 02 and 03 were drilled from one site about 2 kilometres east-southeast of Hole 01 on the footwall (south) side of the St. Mary Fault. Sparse outcrops here indicate intensely deformed and altered sedimentary rocks that contain quartz-albite-hematite (magnetite) zones that locally contain copper. The drill holes intersected very chloritic sediments, with two separate, extensively brecciated hematite-enriched zones of quartz-albite. The thinner 18-metre zone contains visible chalcopyrite and pyrite. A thicker 40-metre wide zone is pyritic. Both zones are being sampled for their gold and copper content plus other indicator elements to check for an IOCG signature.

Hole 04, centered on an isolated circular airborne EM (low resistivity) anomaly, intersected mainly limonitic clays.

Ash Claims (Pit Claims)

The Company drill tested the Ash claims in 2003 interpreted to be at the south end of the Sullivan-North Star sub-basin in the Purcell Supergroup in southeastern British Columbia. Four holes were completed. The purpose of the drilling was to verify a sulphide intersection reported by Texas Gulf Sulphur Corp. in 1971 and to determine the extent of this mineralization. Hole TGS71-1, drilled in 1971 by Texas Gulf Sulphur Corp., is reported to have intersected 5.5 metres of laminated and layered semi-massive sulphides at the Sullivan horizon beneath approximately 100 metres of overburden. The area is located just south of the St. Mary River, 9 kilometres due south of the Sullivan mine at Kimberley.

The widespread alteration and mineralization in Middle Aldridge rocks above the Sullivan horizon, and its contrast with unmineralized rocks in the footwall, suggests the possibility of a mineral source at the Sullivan horizon at the transition from the Middle to Lower Aldridge.

Indigo Property

The Indigo property is immediately southwest of the Panda area which was successfully drilled by Klondike Gold in 2005. This drilling confirmed the existence of structural basin at Sullivan time and intersected distal, stratiform lead-zinc mineralization at the Sullivan horizon. Furthermore, vectoring of lead-zinc values and the stratigraphic thickness of the Sullivan horizon both indicated increasing values to the southwest suggesting the source of mineralization may lie to the southwest. The prospective Sullivan horizon on the Indigo property has not been drill tested, leading to the decision by Klondike Gold to acquire the property.

Spider Creek and Star Prospect

Through staking, the Company extended its land position in the Spider Creek and Star prospect areas in the Purcell Supergroup in southeastern British Columbia. This is a sedex massive sulphide target area that has received considerable past exploration, including drilling. In 2003, Klondike Gold began a hole at Spider Creek to test the Sullivan Horizon at the inferred intersection of two prominent linears.

The Spider Creek-Star area is within a structurally complex block of mainly Middle Aldridge stratigraphy. Several north-trending faults with considerable west-side down motion increase the depth to the Sullivan horizon to the west. Hence, drilling and sulphide mineralization in the Star deposit area have been restricted to the Middle Aldridge or hangingwall rocks of the Sullivan deposit. The faults are associated with wide zones of shearing and intense alteration, including silicification, widespread pyrite, and minor galena and sphalerite. Surface exposures of Middle Aldridge stratigraphy on the Star property are also locally intensely altered. Two zones of tourmalinite, aligned along a north-south structure, are indicative of Aldridge-age fault movement. The northern tourmalinite consists of a massive tourmalinite fragmental more than 25 metres thick and 15 metres wide. The southern exposure is about 3 m thick, consisting of fine-grained tourmalinite in metasediments. Two occurrences of albitized sediments are also noted on the claim block.

Exploration on the Star property has included some mapping, soil geochemistry and a UTEM geophysical survey by Cominco Ltd. in the late 1980s. Based on results of these surveys, Cominco drilled one hole and discovered thin pyrrhotite laminations in drill core. In 1990, Kokanee Explorations Ltd. entered into an agreement with Barkhor Resources Inc. to explore the property. Early work included a HLEM geophysical survey and a grid soil survey that led to drilling of a coincident geological, geochemical and geophysical anomaly.

Fourteen holes were drilled on the property in 1990-1991. Weak to highly anomalous to significant sulphide intersections were intersected in all holes in the central part of the block. Sulphides, including pyrite, sphalerite and galena, occur as cross cutting veins or layer parallel, strataform accumulations (A. Hagen, 1990 report). Sulphides are reported as occurring as irregular lenses with quartz, parallel beds or as intensely disrupted, slump-like beds (A. Hagen). The best vein intersection (Hole S90-1) assayed 8.52% lead, 2.38% zinc and approximately 75 g/t silver across 2 metres (BC MINFILE report). Similar assays are reported from other holes; for example DDH 90-3, 210 metres farther south contained mineralized beds with assays of 1.12% zinc across 1 metre, and 12.12% lead and 340 g/t silver in a 1 metre interval in an immediately underlying bed.

In summary, the Kid-Star property is a known mineral occurrence with considerable past work that has identified significant vein and stratabound lead-zinc-silver mineralization. Diamond drilling on this property commenced in June 2007.

Ron Gold Property

The Company acquired the Ron Gold property in July 2003. The Ron Gold property is underlain mainly by mafic to intermediate rocks of the Eagle Creek plutonic complex that intrudes matavolcanics of the Early Jurassic Rossland Group. The complex and host rocks are sheared by the northwest trending Silver King shear zone that extends more than 40 km to the south.

Numerous mineral occurrences, including the past-producing Granite-Poorman or Kenville mine, occur on immediately adjacent claims, and several mineral occurrences listed in BC Minfile are on the Ron claims. Work during the 2008 season included a small geochemical soil grid and 5 days of prospecting. Prospecting in 2004 and during the 2008 program discovered several new occurrences and showings. These are generally shear-related veins with variable to locally high copper and gold values, as well as fracture and vein controlled mineralization within the Eagle Creek plutonic complex itself. A small soil geochemical survey done in the northeastern part of the claim group identified some broad, irregular north to north-northwest trending coincident copper-(lead)-(zinc)-(silver) anomalies that appear to roughly parallel the trend of the Silver King shear zone. Gold values in the soil survey were more erratic although several very high values were recorded. Specifically, two samples 25 meters apart, returned values of 1460 and 132 ppb Au and a third sample, 225 meters to the west, returned 911 ppb Au.

Results of the 2008 field program were consistent with an exploration model for a porphyry type copper-gold system. Later structural modifications, specifically veining and shearing associated with the Silver King shear zone, may have locally enhanced copper and gold values. Currently the Company is looking into an airborne geophysical survey covering the entire claim group.

On September 24, 2009 the company announced that it had entered into an option/joint venture agreement (“Agreement”) with Anglo Swiss Resources Inc. (“Anglo”) wherein Anglo can earn up to a 60% interest in the Ron Gold property. Consideration consists of Anglo paying $200,000 ($150,000 received), issuing 100,000 Anglo shares (100,000 received) and incurring $650,000 in exploration expenditures by the 4th anniversary of the Agreement. This agreement is subject to an underlying agreement with an arm’s length party that comes with a 2% net smelter return royalty. Anglo may at any time purchase 1.5% of the royalty interest from the holder for $500,000. The Company also holds an additional second royalty equal to 1% of net smelter returns. Anglo may at any time purchase the second royalty interest from the Company for an additional $500,000.

Red Point Property, Rossland

The Red Point property is a gold prospect where mineralization is believed to represent a gold-rich, copper-poor porphyry occurrence. Gold is associated with pyrrhotite and pyrite (with only trace amounts of chalcopyrite) disseminated through and coating hairline fractures in Rossland Group pyroclastics and flows which seem to range in composition from andesite to felsites. There are several old workings on the property from the 1800s and a large dump indicates there was a significant amount of underground development at that time. A total of six holes were drilled on the property totaling 1013 metres with the best assay interval reported from hole #2 in which 166 metres averaged 0.84 grams per tonne gold (Exploration in BC 1997, page 49).

Black Hawk Drilling began drilling the Red Point property in October 2007. Exploration on the property in 2006, including ground and airborne geophysical surveys, a soil survey and diamond drilling, identified several targets of widespread disseminated and fracture controlled copper-gold mineralization and massive sulphide copper-gold veins similar to those of the "Main veins" in the Rossland camp. Six holes are currently planned, testing at depth known surface mineralization and coincident soil and geophysical anomalies. The holes are located mainly north and east of drilling done during the 2006 season.

Yukon Properties

The Lone Star Property, Yukon

The Lone Star property is located in the Dawson Mining District of Yukon Territory. The property comprises 1200 ungranted Quartz claims, 14 Titled Lots and 300 Placer claims.

The Klondike district has produced over 12 million crude ounces of placer gold since George Carmack's 1896 discovery of gold on Bonanza Creek. The Lone Star gold occurrence, otherwise known as the Boulder Lode, was discovered in 1897 following the discovery of placer gold. From 1898 to 1914, the occurrence was explored and developed from a surface open cut and later from underground workings. Between 1912 and 1914, over 7600 tonnes of material averaging 5.1 grams/tonne gold were processed by a stamp mill located in Victoria Gulch.

The Company entered into an Option Agreement where in consideration for funding $2,250,000 in exploration expenditures over five years, the Company will grant a 55% interest in the project and an additional 10% upon completing a bankable feasibility study and an additional 10% for arranging project financing. Since 2004, Klondike Star has invested approximately $10 million into directly exploring Lone Star and during the year ended February 28, 2005, Klondike Star Mineral Corporation ("Klondike Star") earned their 55% interest in the property.

A significant breakthrough on the advanced-exploration-stage Lone Star hardrock gold project has been based on the consolidated analysis of 2007 exploration results and geological research of Klondike Star by the University of British Columbia's mineral deposit research unit. Updated analysis has identified about 20- 25% of the mineralization needed for viable mining and established priority drill targets, which are expected to substantially increase known gold potential. There are now four target zones demonstrating significant gold mineralization and resource potential including Lone Star, Nugget, Buckland and Pioneer. A fifth zone, the JF, is drill ready. The comprehensive Lone Star gold project scoping study for a large-tonnage, low-to-medium-grade gold mine with a minimum projected life of 10 years is nearing completion and release. Lone Star is an advanced-exploration-stage project that is being studied for mine development.

Of all its projects, Klondike Star is currently focusing exploration efforts at the majority owned Lone Star project. It involves an area of 135 square km (152 square miles), including the Lone Star zone, the Nugget zone, the Buckland zone, the JF zone, the Pioneer zone and the 27-Pup-Dysle-Veronika zone. These zones extend over large areas with excellent opportunities for the existence of multiple mineralized zones, along both strike and dip. They belong to a class of structures which have potential for large, medium-grade, bulk-tonnage orebodies.

Additional operational and financial highlights are summarized in Klondike Star's annual 10-K filing with the U.S. Securities and Exchange Commission. A copy of the complete report is available on its website or may be requested by contacting info@klondikestar.com.

Five bulk samples have been processed from the Lone Star zone to date in 2007. These samples were collected from the southern end of trench 87TR-16, and continue to extend the sampling of this area reported in 2006 (Press Release #3-2007: Klondike Star Releases Bulk Sampling Results Including 1.33 g/t over 24 metres). The 2006 work at this site included ten contiguous bulk samples which cut the zone over a 67 meter length, and which proved the zone to be continuously mineralized. The five samples collected in 2007 extend this trend an additional 30 metres.

A bulk test from a trench near the Pioneer zone was completed – the first bulk sample from the Pioneer zone. A small bulk test from the 310 zone has also been processed. The 310 zone is a continuous, narrow vein located about 1500 metres southwest of Eldorado Creek on the Lone Star property. This vein has returned chip samples up to 1.12 g/t gold over 1.32 metres.

A cut-line grid totalling 20 line-kilometers has been completed in preparation for geophysical surveys at the JF zone. A detailed soil geochemical survey, with samples collected at 25 meter/82 foot intervals on lines spaced 100 meters/328.1 feet apart is in progress on this grid, and an IP survey is anticipated to start by early September. An extension to the discovery trench is planned within the next month. An area immediately south of the JF zone grid that had not previously been geochemically sampled has been tested with 299 samples over a 1 kilometer/0.62 mile square area.

Indian River Placer Property

The Company's joint venture partner Klondike Star has thus far drilled over 600 holes on 60% of the Indian River property. Gold was recovered from nearly 100% of the holes in the main target area. The target zone forms a wedge that is 300 metres (984 feet) at the beginning and broadens to a width of over 1,500 metres (4,921 feet). To date, the mineralized zone extends over a distance of more than three km (1.9 miles) and remains open to expansion to the east and south. Gold is uneven but consistently distributed across this broad area with gold values present across the entire width of the property. The fineness of the gold assayed at over 82%. If mining results are typical of the industry's experience in the Klondike, the extent of mineralization could be higher by as much as 20% to 30%. Klondike Gold has a 5% Net Smelter Royalty interest in the Indian River Placer project.

The Indian River placer gold project covers over 60 miles of placer claims and leases along the southern edge of the Klondike placer mining region. The Company’s objective is to develop a large placer mine which would bring cash flow to the Company, enabling further mineral exploration of its Klondike area claims.

Among the advantages of the Indian River property are that it can be brought into production quickly. It lends itself to environmentally responsible mining methods already employed successfully in the Klondike that engineers have refined to reduce energy requirements and minimize operating costs. The company also has camp facilities and some of the required equipment on the project site. Klondike Star is currently in negotiations for required financing of the mine.

Chapleau – Ontario

Chapleau Kimberlite Project

Klondike Gold acquired 48,900 acres of prospective kimberlite ground in the Chapleau area of Ontario. Klondike Gold will pay for staking, leasing and other acquisition costs plus a 15% administration fee to earn a 50% working interest in the property. Chalice Diamond Corp. (“Chalice Diamond”) (formerly held by Golden Chalice Resources Inc.) holds the other 50% interest and is the operator, with the Company paying for half of all exploration costs plus a 15% administration fee. Staking has covered numerous zones with kimberlitic indicator minerals in sediments and till samples, and a series of circular airborne magnetic anomalies on strike with the discovery ground. The Company will further explore these anomalies and their magnetic pipe-like features.

Exploration work in the area by joint venture partner, Chalice Diamond, has opened up a previously discovered kimberlite dyke called the Fletch. Trenching has traced the dyke for up to 600 metres on strike and open in both directions. During the 2007 field season, 8 microdiamonds were recovered from separate sample sites on the on the dyke. The dyke ranges from 0.5m to over 5m in width with a subvertical dip, the preferred orientation for mining. The dyke is accessible by road with power and infrastructure in the area. These factors greatly improve the exploration and development potential as compared to the far northern reaches of Canada where access, exploration and development costs can be prohibitive.

The diamonds from the Fletch dyke was recovered by caustic fusion at SGS Laboratories in Lakefield, Ontario. The KIMs were recovered by heavy mineral separation at True North Mineral Laboratory in Timmins and sent to C.F.

Mineral Research Ltd., in Kelowna, British Columbia for x-ray diffraction analysis and chemical classification of diamond potential.

Missanabie Area Diamonds			
Sample Number	Number of Diamonds	Sample Weight /kg	Location
78743	2	6.36	Fletch Dyke
79292	3	27.5	Fletch Dyke
81228	1	10.15	Fletch Dyke
81230	2	7.47	Fletch Dyke

Nicholson-Gratton Property

Klondike Gold acquired a 50% interest in the Nicholson-Gratton (NG) group of properties which forms a part of the Chapleau Kimberlite Project located northwest of Chapleau, Ontario. This property was acquired in partnership with Chalice Diamond as portions of the property are adjacent to ground already held by both Chalice Diamond and Klondike Gold. On December 18, 2008, the agreement was amended to a consideration to be paid by Klondike Gold of $250,000 (paid) payable over three years, 75,000 shares of GCR (issued) and paying $20,000 in either shares or cash (completed). There is a 3% net smelter return payable to the optionor of which half may be purchased for $1,500,000. Future exploration costs will be borne equally by both Klondike Gold and Chalice Diamond with Chalice Diamond acting as the operator.

The NG properties cover geology favourable for hosting diamond bearing kimberlite pipes. Historical prospecting on one of the properties discovered a narrow kimberlite dike that contained a micro-diamond. Ontario government airborne geophysical data has since identified circular magnetic anomalies on the NG properties and adjacent ground that could represent larger pipe like bodies similar to kimberlite pipe intrusives. Preliminary field work is being done to assess these anomalies and other targets with drilling also planned.

Josephine Property

In February 2009, together with its joint venture partner Chalice Diamond Corp., the Company entered into an agreement on its Josephine property in the Chapleau/Wawa area with Revolution Technologies and Canada Iron Inc., who also own properties in this area. The companies assigned their non-iron mineral rights on their Esquega and Corbiere property for Iron mineral rights on the Josephine property. After reviewing the property, this agreement was terminated on October 20, 2010.

Matarrow Property

In February 2007, Klondike Gold announced it had acquired a 100% interest in the Matarrow mine property, located approximately six kilometres southwest of the Matachewan gold camp in Yarrow township, Ontario. New terms were signed on December 10, 2008. Consideration for the property consisted of $42,500 (paid), 170,000 shares (issued) and a work commitment of $45,000 (completed). There is a 2% net smelter return payable, of which half may be purchased for $1,000,000.

The Matarrow mine consists of a three-compartment shaft and workings on the 150 and 300-foot levels. In 1952/1953, the Property produced approximately 40,000 tons of ore averaging 6.13% lead-zinc. Sphalerite (zinc), galena (lead) and silver occur in carbonate veins in "veined shatter zones" associated with a banded iron formation (BIF) that is 60 metres in width and extends for two kilometres along strike. These shatter zones may be feeder systems to a massive sulphide orebody related to the iron formation, or remobilized mineralization from a massive sulphide orebody.

In 1965, a geophysical EM survey performed in the area identified two major conductors. The first is in the shaft area and the second is located east of the shaft area. The second conductive zone exhibits a high conductivity with reported widths up to 60 feet. The second anomaly which is approximately 1,200 feet in length has only one recorded drill hole. This hole reportedly intersected a very heavily mineralized zone with pyrite and pyrrhotite from 122 to 156 feet, and a second mineralized zone from 252 to 315 had anomalous sections of gold and copper.

In 1996, Opawica Explorations Inc. drilled a single deep hole (MAT96-6) beneath the existing mine workings and intersected the South and North Veins with reported values of **9.57% Pb and 2.78% Zn over 1.0 meters** and **2.29% Pb and 0.87% Zn over 1.1 meters,** respectively. The intersections are approximately 220 meters vertically below surface. Klondike Gold's drill hole was collared approximately 60 meters south of Opawica's drill hole MAT96-6 at -70 degrees, intersecting **4.56% Zn and 0.59% Pb over 4.10 meters** drilled width, approximately 375 meters vertically below surface. This intersection is within a broader mineralized zone of **1.91% Zn and 0.27% Pb over 11.0 meters** drilled width. From historical data the estimated true width is believed to be approximately 1.49 meters within a broader mineralized zone of approximately 4.0 meters. Both the North and South Vein systems appear to coalesce at depth, dip subvertically and display continuity to the mineralized system at these greater depths.

The second drill hole twinned a 1953 drill hole and encountered massive sections of pyrrhotite and pyrite. Klondike Gold is planning a program of stripping and trenching as well as MMI geochemical sampling, and follow-up diamond drilling for the Matarrow Property.

A quality assurance program is employed which includes the insertion of standards and blanks for each batch of samples. Samples of the NQ size drill core are sawed in half, with one-half sent to a commercial laboratory, Expert Laboratory of Rouyn-Noranda, Quebec, and the other half retained in a secure facility for future reference.

Ontario Claims, Ontario

Akweskwa West Property

In December 2010, the Company announced, subject to regulatory approval, the acquisition of a 100% interest in the Akweskwa West gold property. The property consists of ten claims (100 units) in Kenogaming Township, Porcupine Mining Division. The property is located approximately 50 km southwest of Timmins, accessible by road and is a key addition to the Company's gold portfolio. Consideration for the property consists of $55,000 ($15,000 paid) and 450,000 shares (100,000 issued), payable over four years. There is a 3% net smelter return payable, 1% of which may be purchased for $1,500,000 and a further 1% purchased for a further $1,500,000.

Matarrow Mine

Outstanding commitments are $42,500 cash (paid), 170,000 shares (issued). There is a 2% NSR, of which half may be purchased for $1,000,000.

Selected Annual Information

The selected consolidated financial information should be read in conjunction with the Audited Consolidated Financial Statements of the Company for the year ended February 28:

Canadian Dollars	**2011**	**2010**	**2009**
Other Income	$ 2,515	$ 3,084	$ 18,766
Net loss	$ 879,809	$ 934,518	$ 2,818,298
Net loss per share	$ 0.06	$ 0.01	$ 0.02
Total assets	$ 6,469,571	$ 5,939,216	$ 5,354,489
Long term debt	$ Nil	$ Nil	$ Nil
Dividends	$ Nil	$ Nil	$ Nil

Results of Operations

For the year ended February 28, 2011, the Company had a net loss of $862,809 compared to a net loss of $934,518 in the previous year. The significant differences between the two years include:

- A decrease in consulting charges to $64,420 (2010 - $88,000) due to cost cutting measures.
- A decrease in office administration to $326,000 (2010 - $594,000) due to a decrease in administrative services provided by a related party See "*Transactions with Related Parties*" below.
- An increase in the Part 12.6 interest paid on unspent flow through investments to $110,502 (2010 - $14,001).
- An increase in regulatory and stock transfer fees to $56,837 (2010 - $37,675) due to costs associated to the share consolidation.
- A decrease in properties written off to $6,507 (2010 - $296,409), as less properties were terminated in the current year.
- A recovery of travel and promotion costs of $35,125 during the year ended February 28, 2011 due to cancellation of promotional initiatives.

The Company's comprehensive loss was $879,984 (2010 - $822,188) which included a loss on investments which are held by the Company and available for sale of $17,175 (2010 – gain of $13,435).

As of February 28, 2011, deferred mineral property costs totaled $5,629,760 compared to $5,213,836 at February 28, 2010. During the year, the Company spent $459,018 on exploration. These expenditures were primarily due to $408,519 of exploration activity at the Cranbrook properties.

Summary of Quarterly Results

The following table sets forth selected quarterly financial information for each of the last eight quarters with the figures for each quarter in Canadian dollars.

Quarter Ending	Other Income $	Net Loss $	Net Loss per Share $
February 28, 2011	971	498,027	0.03
November 30, 2010	796	68,755	0.01
August 31, 2010	258	133,990	0.01
May 31, 2010	490	162,037	0.01
February 28, 2010	390	330,440	0.03
November 30, 2009	257	225,871	0.02
August 31, 2009	545	209,293	0.02
May 31, 2009	1,892	168,914	0.01

Fourth quarter

During the fourth quarter ended February 28, 2011 the Company has the following significant events and/or transactions:

i) The significant increase of loss during the quarter is mainly due to Part XII.6 tax of $110,502, and the resulted future income tax expense of $231,700.

ii) Acquired a 100% interest in the Akweskwa West gold property located approximately 50km southwest of Timmins (please refer to the mineral property section on page 10 of this document)

Liquidity and Capital Resources

The Company has financed its operations primarily by the issue of share capital and loans from related parties. The continued operations of the Company are dependent on its ability to develop a sufficient debt restructuring plan, receive continued financial support from related parties, complete sufficient public equity financing, or generate profitable operations in the future.

The Company had a working capital deficit of $411,440 at February 28, 2011 compared to $948,332 at February 28, 2010. The Company's cash position at February 28, 2011 was $687,887. The Company does not have sufficient working capital to meet its obligations for the next twelve months. Additional capital will be required to meet the obligations of the option agreements and meet its flow through obligations.

The Company's capital needs in the current period and last fiscal year have been met by the following equity financings:

Private Placements during February 2011:

The non-flow through private placement consisted of a total of 9,316,000 units at a price of $0.20 per unit. Each unit consisted of one non flow through common share and one-half of one non-flow through, non-transferable share purchase warrant (the "Warrant"). Each full Warrant entitles the holder to purchase one additional common share of the Company at a price of $0.25 for a period of three years from closing the private placement.

The flow through private placement consisted of 488,000 units at a price of $0.25 per unit. Each unit consisted of one flow through common share and one-half of one non-flow through, non-transferable share purchase warrant (the "Warrant"). Each full Warrant entitles the holder to purchase one additional common share of the Company at a price of $0.30 for a period of two years from closing the private placement.

In connection with the private placements the company paid cash commissions of $236,958 and issued 848,160 compensatory warrants exercisable between $0.20 and $0.25 for a period of two years.

Private Placements during the year ended February 28, 2011:

3,850,000 units at $0.20 per unit for total proceeds of $770,000. Each unit consisted of one share and one half share purchase warrant. Each whole warrant entitles the holder to purchase an additional share at $0.25 per share to November 25, 2013. All of the units were non-flow-through shares with non-flow-through warrants. In conjunction with this placement 281,560 compensation warrants exercisable at $0.20 with a fair value of $43,000 expiring November 25, 2012 were issued. Each agents warrant is exercisable into a "unit" of common stock. Each unit consists of one common share and one half of one non-transferable non-flow-through share purchase warrant.

3,085,000 units at $0.20 per unit: each unit consisted of one share and one half share purchase warrant. Each whole warrant entitles the holder to purchase an additional share at $0.25 per share to December 16, 2013. All of the units were non-flow-through shares with non-flow-through warrants.

2,381,000 units at $0.20 per unit: each unit consisted of one share and one half share purchase warrant. Each whole warrant entitles the holder to purchase an additional share at $0.25 per share to December 29, 2013. All of the units were non-flow-through shares with non-flow-through warrants.

488,000 units at $0.25 per unit: each unit consisted of one share and one half share purchase warrant. Each whole warrant entitles the holder to purchase an additional share at $0.30 per share to December 29, 2013. All of the units were flow-through shares with non-flow-through warrants.

Flow-Through Obligations

During the year ended February 28, 2011, the Company renounced $122,000. As at February 28, 2011, the Company has paid a total of $110,502 in Part XII.6 taxes payable with respect to previously renounced, unspent exploration amounts of $890,486.

During the year ended February 28, 2010, the Company renounced $1,563,000. Of this renunciation $250,000 was spent later than the Company and investor had agreed upon and as a result, the Company paid the investor $25,259 as compensation for the delay.

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

Transactions with Related Parties

Related party transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Amounts due to related parties are unsecured with no specific terms for repayment.

- Due to related parties comprised $247,796 as at February 28, 2011 (February 28, 2010 - $123,787) payable to a company controlled by a director and $431,886 (February 28, 2010 - $600,545) to companies with common directors.
- The Company was charged office administration fees of $316,000 (2010 - $594,000) during the year by a company controlled by a director. The same company also charged $12,232 (2010 - $32,616) for automobile rental, and $9,000 (2010 - $12,000) for core storage facilities. These charges were made under an annual renewable agreement for services and cost recovery and were capitalized to mineral properties. The agreement can be terminated by the Company with no notice. The services to the Company included supervision and administration of the financial requirements of the Company's business, producing quarterly accounts in accordance with public reporting requirements; communicating with various regulatory authorities in order to ensure compliance with all applicable laws; professional analysis and planning of exploration programs, assisting in the preparation of news releases, promotional materials and other documents required to be disseminated, responding to any requests for information and questions; providing secretarial services and legal consultation; office space, office furniture, boardroom facilities, photocopier, fax and such other amenities normally associated with office needs; and providing such other additional instructions and directions as required.
- The Company was charged acquisition $Nil (2010 - $47,390), exploration $16,174 (2010 - $49,327), and administration $2,304 (2010 - $14,508), totaling $18,478 (2010 - $111,225) by a company with common

directors for work done on the Chapleau claims. The same company credited option income of $Nil (2010 - $68,705).

- The Company paid consulting fees of $56,750 (2010 - $70,500) to directors and officers during the year.
- The Company has accounts receivable from companies with directors in common in the amount of $31,964 (2010 - $30,377) for expenses and shared mineral property costs. These advances are unsecured, non-interest bearing and have no fixed terms of repayment.

Changes in Accounting Policy

Effective March 1, 2008, the Company adopted the following new CICA Handbook Sections on a prospective basis with no restatement to prior period financial statements.

i) Section 1535, *Capital Disclosures*, (Note 8) requires the disclosure of both qualitative and quantitative information that enables users of financial statements to evaluate the Company's objectives, policies and processes for managing capital. Under this standard, the Company will be required to disclose the following:

- qualitative information about its objectives, policies and processes for managing capital;
- summary quantitative data about what it manages as capital;
- whether during the period it complied with any externally imposed capital requirement to which it is subject; and when the Company has not complied with such externally imposed capital requirements, the consequences of such non-compliance.

ii) Section 3862, Financial Instruments – Disclosures; and Section 3863, Financial Instruments – Presentation consist of a comprehensive series of disclosure requirements and presentation rules applicable to financial instruments. Section 3862 revises and enhances the disclosure requirements for financial instruments and Section 3863 carries forward unchanged the presentation requirements.

Section 3862 requires the Company to provide disclosures in its financial statements that enable users to evaluate:

- the significance of financial instruments for the Company's financial position and performance,
- the nature and extent of risks arising from financial instruments to which the Company is exposed during the period and at the balance sheet date, and
- how the Company manages those risks.

iii) On June 1, 2007, the Emerging Issues Committee of the CICA issued Abstract No. 166, "Accounting Policy Choice for Transaction Costs" ("EIC-166"). This EIC addresses the accounting policy choice of expensing or adding transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading. Specifically, it requires that the same accounting policy choice be applied to all similar financial instruments classified as other than held-for-trading, but permits a different policy choice for financial instruments that are not similar. The Company has adopted EIC-166 effective June 1, 2007, which requires retroactive application to all transaction costs accounted for in accordance with CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement. The Company has evaluated the impact of EIC-166 and determined that no adjustments were required.

The CICA approved amendments to CICA Handbook Section 1400 "General Standards of Financial Statement Presentation". These amendments require management to assess an entity's ability to continue as a going concern. When management is aware of material uncertainties related to events or conditions that may cast doubt on an entity's ability to continue as a going concern, those uncertainties must be disclosed. In assessing the appropriateness of the going concern assumption, the standard requires management to consider all available information about the future, which is at least, but not limited to, twelve months from the balance sheet date. The new requirements of the standard are applicable for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2008.

Financial Instruments and Other Instruments

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

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

Outstanding Share Data

In October 2010, the company completed a consolidation of its share capital on the basis of one (1) new common share for every existing fifteen (15) common shares. The share, warrant and option numbers have been adjusted to reflect this consolidation.

The authorized share capital consists of an unlimited number of common shares.

Common shares - As of June 27, 2011, an aggregate of 23,529,983 common shares were issued and outstanding.

Warrants - The Company has the following warrants outstanding as of June 27, 2011:

Non- Flow-Through Warrants	Exercise Price	Expiry Date
1,066,667	$1.50	December 28,2011
130,500	$0.20	December 16, 2012
508,667	$1.50	December 27, 2012
409,580	$0.20	December 29, 2012
244,000	$0.25	December 29, 2013
26,520	$0.25	December 29, 2012
606,060	$1.50	* July 25, 2013
1,925,000	$0.25	November 25, 2013
281,560	$0.20	November 25, 2012
1,542,500	$0.25	December 16, 2013
20,000	$1.50 / 2.25 / 3.00	December 28, 2013
1,190,500	$0.25	December 29, 2013
710,000	$1.50 / 2.25 / 3.00	January 25, 2014
406,667	$1.50	September 30, 2014
326,667	$1.50	November 15, 2014

9,394,888		

* On July 19, 2010, the Company extended the expiry date of 606,060 warrants from July 25, 2010 to July 25, 2013. On December 9, 2009, the Company extended the expiry date of 508,667 warrants from December 27, 2009 to December 27, 2012.

Options – As at June 27, 2011, the Company had 1,094,995 options outstanding with a weighted average exercise price of $0.71 with a weighted average remaining contractual life of 2.12 years.

Investor Relations

Directors and Officers of the Company all participate in a limited investor relations program. The Company attends trade shows for external promotional activities. Costs allocated to investor relations are comprised of promotional expenses incurred by Directors and Officers of the Company.

Future Accounting Pronouncements Not Yet Adopted

Consolidated Financial Statements

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

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

Business Combinations

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

The measurement of equity consideration given in a business combination will no longer be based on the average of the fair value of the shares a few days before and after the day the terms and conditions have been agreed to and the acquisition announced, but rather at the acquisition date. Subsequent changes in the fair value of contingent consideration classified as a liability will be recognized in earnings and not as an adjustment to the purchase price.

Restructuring and other direct costs of a business combination are no longer considered part of the acquisition accounting. Instead, such costs will be expensed as incurred, unless they constitute the costs associated with issuing debt or equity securities.

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

International Financial Reporting Standards ("IFRS")

The Canadian Accounting Standards Board confirmed January 1, 2011 as the date IFRS will replace Canadian standards and interpretations as Canadian Generally Accepted Accounting Principles (Canadian GAAP) for publicly accountable enterprises (which includes investment funds and other reporting issuers). Changing from the Current Canadian GAAP to IFRS may materially affect an issuer's reported financial position and results of operations. It may also affect certain business functions. The Company's transition date of March 1, 2010 will require the restatement, for comparative purposes, of amounts reported by the Company for all reporting periods within the year ended February 28, 2011.

The conversion from Canadian GAAP to IFRS will require the implementation of a new set of accounting standards, and the internal controls over financial reporting will need to address the initial reporting of IFRS financial statements, including related note disclosures, as well as on-going financial reporting. The Company is working through a planned IFRS transition plan. The first stage was for management and the accounting department to be introduced to IFRS. The Company's management and accounting team have attended IFRS workshops and have purchased IFRS implementation resources to aid in the transition process. The Company is currently in the second stage and is assessing what the impact of these changes will have on the Company's financial reporting. The accounting team plans to prepare a March 1, 2010 transition date opening balance sheet in accordance with IFRS in the 2011 fiscal year to assist with determining the accounting policies best suited for financial reporting. Management will be relying on outside consultants and auditors to assist with the transition where sufficient technical expertise does not exist in-house.

The following accounting policies will or may impact the Company's financial reporting under IFRS:

Exploration for and Evaluation of Mineral Resources

The Company is in the exploration stage and under Canadian GAAP currently capitalizes all costs related to the acquisition and exploration of its mining rights. Management regularly reviews the carrying value of its mineral rights for evidence of impairment, and makes a provision when the carrying values are estimated to exceed their net recoverable amounts.

Under IFRS 6 *"Exploration for and Evaluation of Mineral Resources"* exploration and evaluation assets shall continue to be measured at cost, but the Company will have to determine an accounting policy specifying which expenditures are to be recognized as exploration and evaluation assets, and then apply that policy consistently. This standard will neither apply to expenditures incurred for investigating properties before the Company has the legal right to explore the property, nor to expenditures incurred in the development stage of a property once technical and economic feasibility are demonstrable.

In addition, under IFRS 6 and under International Accounting Standard (IAS) 36, *"Impairment of Assets"*, the Company will be required to assess at the end of each reporting period whether there is any indication that the asset may be impaired. IFRS also allows the reversal of impairments if conditions that gave rise to those impairments no longer exist. Canadian GAAP prohibits reversal of impairment losses. It is expected therefore, that there will be increased volatility in impairment recognition due to increase in frequency of assessment and possibility of reversal of impairments.

Flow-Through Shares and Future Income Taxes

Under Canadian GAAP the Company records a future tax liability and a share issue cost at the time the expenditures are renounced to shareholders. There is currently no equivalent IFRS standard, and the policy is under review. The tax benefits renounced to shareholders are significant, and a change in accounting for flow-through share issues, and the resulting tax affect, could be material if it is determined that the Canadian standard should not be used. In addition to the future income tax adjustments that may result from a change in accounting for flow-through shares, there will be additional future income tax adjustments related to other policy changes, which could be significant.

Other Policy Differences

A number of differences between Canadian GAAP and IFRS have been identified, but their applicability and potential impact to the Company have not yet been assessed, including the accounting for income taxes, stock-based compensation, and financial instruments and disclosure requirements. These differences may have a material impact on the Company's financial statements for the year ended February 28, 2011.

System and Internal Control Impacts

In addition to the impact of IFRS on accounting policies, management is also in the process of assessing the impact of IFRS adoption on the Company's internal controls over financial reporting, disclosure controls and procedures, information technology and data systems. As a preliminary assessment, the Company does not expect that the conversion to IFRS will have a significant impact on its accounting processes and internal controls, information technology and data systems.

As the review of the accounting policies is completed, appropriate changes to ensure the integrity of internal control over financial reporting will be made. For example, under IFRS 6 and IAS 36, discussed above, the Company will be required to assess at the end of each reporting period whether there has been any indication that the asset may be impaired. Additional controls will be needed to ensure that the recorded balance is fairly stated at each reporting period. It is anticipated that such controls will include senior management oversight on the development of key assumptions and variables.