KLONDIKE GOLD CORP.

Consolidated Financial Statements

For The Years Ended
February 28, 2014 and 2013
(Expressed in Canadian Dollars)

MORGAN LLP
CHARTERED ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Klondike Gold Corp.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Klondike Gold Corp., which comprise the consolidated statements of financial position as at February 28, 2014 and 2013, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Klondike Gold Corp. as at February 28, 2014 and 2013, and its financial performance and its cash flows for the years 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 matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, Canada — *"Morgan LLP"*

June 26, 2014 — Chartered Accountants

KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed In Canadian dollars)

	February 28 2014	February 28 2013
ASSETS		
Current		
Cash	**$ 73,681**	$ 1,096,304
Restricted cash (Note 5)	**10,000**	133,500
GST recoverable	**10,056**	32,078
Amounts receivable (Note 8(h))	**376,890**	27,105
Prepaid expenses and deposits	**29,116**	58,897
	499,743	1,347,884
Related Party Advances	**-**	61,025
Available-for-sale Investments (Note 6)	**207,738**	12,112
Reclamation Bonds	**3,500**	10,500
Equipment (Note 7)	**154,891**	277,680
Exploration And Evaluation Assets (Note 8)	**4,788,265**	8,465,908
Investment In Joint Venture (Note 9)	**540,026**	126,657
	$ 6,194,163	$ 10,301,766
LIABILITIES		
Current		
Accounts payable and accrued liabilities	**$ 323,935**	$ 222,592
Due to related parties (Note 11 (a))	**45,225**	75,871
Flow-through share premium liability	**-**	46,700
Loans (Note 10)	**511,781**	-
	880,941	345,163
EQUITY		
Share Capital (Note 12)	**55,625,491**	54,852,331
Share Subscriptions Receivable	**-**	(396,000)
Reserves	**3,437,753**	3,192,676
Deficit	**(54,263,731)**	(48,219,999)
Shareholders' Equity	**4,799,513**	9,429,008
Non-controlling Interest	**513,709**	527,595
Total Equity	**5,313,222**	9,956,603
	$ 6,194,163	$ 10,301,766

Going Concern (Note 1)
Commitments (Note 16)
Subsequent Events (Notes 6, 8(b), 10, 19)

These consolidated financial statements were authorized for issue by the Board of Directors on June 26, 2014. They are signed on the Company's behalf by:

" Peter Tallman "	*" Gordon Keep "*
Director	Director

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

KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed In Canadian dollars)

	For The Years Ended February 28 2014	February 28 2013
Expenses		
Administration (Note 11 (b))	**$ 215,650**	$ 303,552
Consulting (Note 11 (b))	**595,617**	391,229
Depreciation	**110,761**	63,789
Office and miscellaneous	**39,597**	18,553
Professional fees	**227,656**	148,244
Regulatory and stock transfer fees	**31,742**	38,798
Stock based compensation (Note 11(f))	**229,450**	613,280
Travel and promotion	**246,647**	390,841
Loss Before Other Income (Expenses)	**(1,697,120)**	(1,968,286)
Miscellaneous income	**6,052**	3,194
Interest income	**3,047**	979
Foreign exchange gain	**10,804**	6,783
Loss on sale of equipment	**(2,206)**	-
Gain on debt settlement	**6,093**	38,334
Share of loss in joint venture investment (Note 9)	**(400,668)**	(47,688)
Gain on sale of foreign subsidiary (Note 8(h))	**149,742**	-
De-recognition of current liabilities	**-**	271,008
Reversal of flow-through investor obligation	**-**	340,000
Write down of exploration and evaluation assets	**(4,202,062)**	(129,034)
Loss Before Income Taxes	**(6,126,318)**	(1,484,710)
Deferred Income Tax Recovery (Note 17)	**68,700**	12,500
Net Loss For The Year	**(6,057,618)**	(1,472,710)
Other Comprehensive Loss		
Unrealized loss on available-for-sale investments	**(2,373)**	(21,940)
Comprehensive Loss For The Year	**$ (6,059,991)**	$ (1,494,150)
Net Loss Attributable To:		
Shareholders	**$ (6,043,732)**	$ (1,466,722)
Non-controlling interest	**(13,886)**	(5,488)
	$ (6,057,618)	$ (1,472,210)
Loss Per Share – Basic and diluted	**$ (0.05)**	$ (0.02)
Weighted Average Number Of Shares Outstanding – Basic and diluted	**115,774,871**	83,938,392

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

KLONDIKE GOLD CORP.

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

	SHARE CAPITAL			RESERVES						
	NUMBER	AMOUNT	SHARE SUBSCRIPTIONS	SHARE PREMIUM	SHARE BASED PAYMENTS	AVAILABLE-FOR-SALE FINANCIAL ASSETS	DEFICIT	OWNERS' EQUITY	NON CONTROLLING INTEREST	TOTAL
Balance, February 29, 2012	81,689,982	$ 52,830,031	$ -	$ 27,405	$ 2,597,634	$ (26,103)	$(46,753,277)	$ 8,675,690	$ 533,083	$ 9,208,773
Private placements	20,945,000	1,780,600	-	-	-	-	-	1,780,600	-	1,780,600
Private placements – flow-through	2,960,026	249,300	-	-	-	-	-	249,300	-	249,300
Share subscriptions receivable	-	-	(396,000)	-	-	-	-	(396,000)	-	(396,000)
Share issue costs - cash	-	(7,600)	-	-	-	-	-	(7,600)	-	(7,600)
Stock based compensation	40,000	-	-	-	615,680	-	-	615,680		615,680
Other comprehensive loss	-	-	-	-	-	(21,940)	-	(21,940)	-	(21,940)
Net loss for the year	-	-	-	-	-	-	(1,466,722)	(1,466,722)	(5,488)	(1,472,210)
Balance, February 28, 2013	105,635,008	54,852,331	(396,000)	27,405	3,213,314	(48,043)	(48,219,999)	$ 9,429,008	527,595	9,956,603
Private placements	9,850,000	743,000	-	-	15,000	-	-	758,000	-	758,000
Private placements – flow-through	1,200,000	87,000	-	-	3,000	-	-	90,000	-	90,000
Shares returned to treasury	(250,000)	(25,000)						(25,000)		(25,000)
Share subscriptions received	-	-	396,000	-	-	-	-	396,000	-	396,000
Share issue costs - cash	-	(31,840)	-	-	-	-	-	(31,840)	-	(31,840)
Stock based compensation	-	-	-	-	229,450	-	-	229,450	-	229,450
Other comprehensive loss	-	-	-	-	-	(2,373)	-	(2,373)	-	(2,373)
Net loss for the year	-	-	-	-	-	-	(6,043,732)	(6,043,732)	(13,886)	(6,057,618)
Balance, February 28, 2014	**116,435,008**	**$ 55,625,491**	**$ -**	**$ 27,405**	**$ 3,460,764**	**$ (50,416)**	**$(54,263,731)**	**$ 4,799,513**	**$ 513,709**	**$ 5,313,222**

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

KLONDIKE GOLD CORP.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed In Canadian dollars)

	FOR THE YEARS ENDED February 28 2014	February 28 2013
Operating Activities		
Net loss for the year	**$ (6,057,618)**	$ (1,472,210)
Adjust for items not requiring an outlay of cash:		
Shares issued for consulting	**-**	2,400
Depreciation	**110,761**	63,789
Accrued interest	**11,781**	-
Stock based compensation	**229,450**	613,280
Gain on debt settlement	**(6,063)**	(38,334)
Share of loss in joint venture investment	**400,668**	47,688
Gain on sale of foreign subsidiary	**(149,742)**	-
Exchange of vehicles for administration expenditures	**13,206**	-
Mineral properties written off	**4,202,062**	129,034
De-recognition of current liabilities	**-**	(271,008)
Reversal of flow-through investor obligation	**-**	(340,000)
Deferred income tax recovery	**(68,700)**	(12,500)
	(1,314,195)	(1,277,861)
Changes in non-cash operating assets and liabilities:		
GST recoverable	**22,022**	6,529
Amounts receivable	**(24,785)**	(27,105)
Prepaid expenses	**29,781**	(31,416)
Related party advances	**61,025**	3,700
Accounts payable and accrued liabilities	**152,260**	264,575
Due to related parties	**(41,897)**	(63,078)
Flow-through share premium liabilities	**(46,700)**	46,700
	(1,162,489)	(1,077,956)
Investing Activities		
Equipment	**(1,178)**	(288,673)
Exploration and evaluation assets	**(887,580)**	(2,805,043)
Investment in joint venture	**(814,037)**	(174,345)
Reclamation bonds	**7,000**	-
	(1,695,795)	(3,268,061)
Financing Activities		
Shares issued for cash	**848,000**	1,894,900
Loan issuances	**500,000**	-
Restricted cash	**123,500**	(108,000)
Share issue costs	**(31,839)**	(7,600)
Share subscriptions receivable	**396,000**	-
	1,835,661	1,517,800
Decrease In Cash	**(1,022,623)**	(2,828,217)
Cash – Beginning Of Year	**1,096,304**	3,924,521
Cash – End Of Year	**$ 73,681**	$ 1,096,304

Supplementary Cash Flow Information (Note 18)

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 715, 675 West Hastings Street, Vancouver, British Columbia, Canada, V6B 1N2.

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 years ended February 28, 2014, the Company reported a loss of $6,057,618 and an accumulated deficit of $54,263,731 at that date. The Company had a working capital deficit of $381,198 and cash at February 28, 2014 amounted to $73,681.

Continuing operations as a going concern are dependent upon management's ability to raise adequate financing and to ultimately achieve profitable operations in the future. During the year, the Company received $500,000 in loans from various investors to cover immediate operating expenses and help restructure the Company. Subsequent to February 28, 2014, the Company received an additional $175,000. Management has implemented a series of cost cutting measures and continues to seek financing for the Company. Although management has been successful in the past; there is no assurance that these initiatives will be successful in the future. These conditions may cast significant doubt on the Company's ability to continue as a going concern.

These 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of Compliance

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

b) Basis of Measurement

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 not retranslated.

d) Basis of Consolidation

Subsidiaries

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

Name	**Principal Activity**	**Place of Incorporation**	**Ownership %**
Lonestar Gold Inc.	Exploration company	Canada	79.82%

Joint Venture

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

e) Measurement Uncertainty

Management's capitalization of exploration and evaluation costs and assumptions regarding the future recoverability of such costs are subject to significant measurement uncertainty. Management's assessment of recoverability is based on, among other things, the Company's estimate of current mineral reserves and resources which are supported by geological estimates, estimated gold and metal prices, and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future and this could materially affect the carrying value and the ultimate recoverability of the amounts recorded for exploration and evaluation assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Financial Instruments and Risk Management

Financial assets

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

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

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

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

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

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

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Financial Instruments and Risk Management (Continued)

Financial liabilities

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

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

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

Financial Instrument Classifications

The Company has classified cash, restricted cash and reclamation bonds as fair value through profit or loss financial assets. Investments in marketable securities are classified as available for sale. Amounts receivable and related party advances are classified as loans and receivables. Accounts payable and accrued liabilities, due to related parties and loan are classified as other financial liabilities. Management did not identify any material embedded derivatives, which require separate recognition and measurement.

Disclosures about the inputs to financial instrument fair value measurements are made within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

f) Financial Instruments and Risk Management (Continued)

Credit risk and liquidity risk on amounts due to creditors and amounts due from/to related parties were significant to the Company's statement of financial position. 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.

g) 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 shareholders' equity.

h) Cash and Cash Equivalents

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

i) Exploration and Evaluation Assets

Exploration and evaluation 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.

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;

- 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;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

i) Exploration and Evaluation Assets (Continued)

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

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

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

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

It is management's judgement that none of the Company's exploration and evaluation assets have reached the development stage and as a result are all considered to be exploration and evaluation assets. Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements. The Company is not aware of any disputed claims of title.

j) Available-for-Sale Investments

Available for sale investments represent investments in public companies and have been designated as available-for-sale investments. The investments are reported at fair value based on quoted market prices with unrealized gains or losses excluded from operations and reported as other comprehensive income or loss.

The Company evaluates the carrying value of investments for impairment at the end of each reporting period. In its impairment analysis, the Company takes into consideration numerous criteria, including the duration and extent of any decline in fair value, the intent and ability of the Company to hold the security for a period of time sufficient for a recovery in value and recent events specific to the issuer or industry. If a decline in value is determined to be other-than-temporary, the carrying value of the security is written down to fair value in the statement of operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

k) Equipment

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

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

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

l) Impairment of Non-Financial Assets

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

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

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

m) Interest in Joint Venture

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

m) Interest in Joint Venture (Continued)

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

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

n) Decommissioning Liabilities

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

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

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

o) Share Capital

i) Non-monetary consideration

Agent’s warrants, stock options and other equity instruments issued as purchase consideration in non-monetary transactions other than as consideration for mineral properties are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued is based on the trading price of those shares on the TSX 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 issued according to their relative fair value using the residual method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Share Capital (Continued)

ii) Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital.

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

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

iii) Share-based payments

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as an employee or consultant expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date, and each tranche is recognized using the graded vesting method over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

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

iv) Share issuance costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

p) Income Taxes

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

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

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

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

q) Loss Per Share

Basic loss per share is calculated by dividing the loss for the period by the weighted average number of common shares issued and outstanding during the period. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding used for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are used to repurchase common shares at the average market price during the period. Basic and diluted loss per share is equal as outstanding stock options and warrants were all anti-dilutive.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

Judgments:

- The carrying value and recoverable amount of exploration and evaluation assets;
- The determination of cash generating units in defining a group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets;
- The inputs used in assessing the recoverability of deferred income tax assets to the extent that the deductible temporary differences will reverse in the foreseeable future and that the company will have future taxable income; and
- There were no decommissioning liabilities is based on the facts and circumstances that exist during the period.
- The determination of a joint arrangement investment and whether the joint arrangement was a joint operation or joint venture.
- The determination of the going concern assumption.

Estimates:

- The inputs used in accounting for share-based compensation expense in the statements of operations and comprehensive loss;
- The estimated useful lives of equipment which are included in the consolidated statement of financial position and the related depreciation included in the statements of profit and comprehensive loss for the year.

4. NEW AND FUTURE ACCOUNTING STANDARDS AND INTERPRETATIONS

Following the joint arrangement of KG46, the Company determined that it holds an interest in a joint venture as defined under IFRS 11 and elected to early adopt IFRS 10, 11 and 12, and IAS 27, new pronouncements relating to the accounting and presentation of joint ventures and to consolidation. The Company has applied the standards retrospectively. The standards did not result in significant changes to the Company's prior year financial statements.

4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (Continued)

IFRS 7 Financial instruments: disclosures was further amended to provide guidance on the eligibility criteria for offsetting assets and liabilities as a single net amount in the statement of financial position. This amendment was effective for annual periods beginning on or after January 1, 2013.

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

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

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

IFRS 13 Fair value measurement is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. This standard was effective for all annual periods beginning on or after January 1, 2013.

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

4. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS (Continued)

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

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

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

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

In May 2013, the IASB IFRS Interpretations Committee ("IFRIC") issued IFRIC 21 – Levies ("IFRIC 21"), an interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.

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

5. RESTRICTED CASH

The Company has a corporate credit card with a limit of $10,000. As collateral for the credit card, the Company maintains a one-year term deposit of $10,000 (February 28, 2013 - $25,000) earning interest at an annual rate of 0.80% with a maturity date of February 21, 2015.

Proceeds held in trust by the Company's lawyer of $Nil (February 28, 2013 - $108,500) were received in connection with a private placement.

(Expressed in Canadian dollars)

6. AVAILABLE-FOR-SALE INVESTMENTS

	As of February 28, 2014		As of February 28, 2013	
	Shares	**Fair Value**	Shares	Fair Value
Klondike Silver Corp.	**34,350**	**$ 2,405**	34,350	$ 3,779
Anglo Swiss Resources Inc.	**333,333**	**3,333**	333,333	8,333
Medgold Resources Corp.	**800,000**	**104,000**	-	-
PJX Resources Inc. (Note 8)	**700,000**	**98,000**	-	-
		$ 207,738		$ 12,112

Subsequent to February 28, 2014, the Company sold the Anglo Swiss Resources Inc. shares.

7. EQUIPMENT

	Costs			
	Vehicles	**Computers**	**Machinery/ Equipment**	**Total**
Balance February 29, 2012	$ 29,550	$ 13,901	$ 11,774	$ 55,225
Additions	138,168	13,550	136,955	288,673
Balance February 28, 2013	167,718	27,451	148,729	343,898
Additions	1,591	1,132	-	2,723
Dispositions	(28,080)	-	-	(28,080)
Balance February 28, 2014	**$ 141,229**	**$ 28,583**	**$ 148,729**	**$ 318,541**

	Accumulated Depreciation			
	Vehicles	**Computers**	**Machinery/ Equipment**	**Total**
Balance February 29, 2012	$ 1,735	$ 299	$ 395	$ 2,429
Additions	30,797	8,069	24,923	63,789
Balance February 28, 2013	32,532	8,368	25,318	66,218
Additions	61,487	9,327	49,574	120,388
Dispositions	(22,957)	-	-	(22,957)
Balance February 28, 2014	**$ 71,062**	**$ 17,695**	**$ 74,892**	**$ 163,649**

	Net Carrying Amount			
	Vehicles	**Computers**	**Machinery/ Equipment**	**Total**
Balance February 29, 2012	$ 27,815	$ 13,602	$ 11,379	$ 52,796
Additions	107,371	5,481	112,032	224,884
Balance February 28, 2013	135,186	19,083	123,411	277,680
Additions	(59,895)	(8,196)	(49,574)	(117,665)
Dispositions	(5,124)	-	-	(5,124)
Balance February 28, 2014	**$ 70,167**	**$ 10,887**	**$ 73,837**	**$ 154,891**

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS

For the year ended February 28, 2014:

	British Columbia Claims	Ontario Claims	Yukon Claims	Portugal Claims	Total
Acquisition costs (net of option income)	$ -	$ -	$ 66,381	$ -	$ 66,381
Exploration costs:					
Drilling	-	-	-	-	962
Field office	-	-	1,463	-	1,463
Field supplies	-	-	58,336	-	58,336
Geology and mapping	57,853	-	387,128	58,420	502,439
Line cutting and trenching	-	-	3,500	-	3,500
Property maintenance	7,855	-	97,754	-	105,609
Travel	-	-	8,297	-	8,297
Total current exploration costs	65,708	-	556,478	58,420	680,606
Total costs incurred during the year	65,708	-	622,859	58,420	746,987
Properties written off	(3,768,888)	(433,174)	-	-	(4,202,062)
Properties sold	(98,000)	-	-	(124,568)	(222,568)
Balance, February 28, 2013	3,801,180	433,174	4,165,406	66,148	8,465,908
Balance, February 28, 2014	**$ -**	**$ -**	**$ 4,788,265**	**$ -**	**$ 4,788,265**
Historical Costs:					
Acquisition	$ -	$ -	$ 1,364,223	$ -	$ 1,364,223
Exploration	-	-	3,424,042	-	3,424,042
	$ -	$ -	$ 4,788,265	$ -	$ 4,788,265

(Expressed in Canadian dollars)

8. EXPLORATION AND EVALUATION ASSETS (Continued)

For the year ended February 28, 2013:

	British Columbia Claims	Ontario Claims	Yukon Claims	Portugal Claims	Total
Acquisition costs (net of option income)	$ 18,386	$ -	$ 47,475	$ -	$ 65,861
Exploration costs:					
Drilling	-	-	876,805	-	876,805
Equipment rental	-	-	10,798	-	10,798
Field office	-	-	11,000	-	11,000
Field supplies	-	-	35,923	-	35,923
Geology and mapping	157,300	-	1,170,831	66,148	1,394,279
Line cutting and trenching	-	-	88,983	-	88,983
Property maintenance	121,166	-	169,796	-	290,962
Travel	794	-	3,234	-	4,028
Total current exploration costs	279,260	-	2,367,370	66,148	2,712,778
Total costs incurred during the year	297,646	-	2,414,845	66,148	2,778,639
Properties written off	(129,034)	-	-	-	(129,034)
Balance, February 29, 2012	3,632,568	433,174	1,750,561	-	5,816,303
Balance, February 28, 2013	$ 3,801,180	$ 433,174	$ 4,165,406	$ 66,148	$ 8,465,908
Historical Costs:					
Acquisition	$ 119,974	$ 66,810	$ 1,297,841	$ -	$ 1,484,625
Exploration	3,681,206	366,364	2,867,565	66,148	6,981,283
	$ 3,801,180	$ 433,174	$ 4,165,406	$ 66,148	$ 8,465,908

8. EXPLORATION AND EVALUATION ASSETS (Continued)

a) Certain of the claims are subject to royalty payments ranging from 5% to 10% of net profits and from ¼% to 4% of net smelter returns.

b) B.C. Claims

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

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

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

c) Ontario Claims, Ontario

The Matarrow property was acquired by option dated February 7, 2007 as amended December 10, 2008 and subsequently expanded by staking. By February 26, 2010 the Company had earned a 100% interest in the property subject to a 2% NSR of which half can be purchased for $1.0 million.

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

d) Yukon Claims, Yukon

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

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

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

8. EXPLORATION AND EVALUATION ASSETS (Continued)

d) Yukon Claims, Yukon (Continued)

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

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

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

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

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

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

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

Subsequent to February 28, 2014, the Company received the required amount of tendered KSMC shares in order to complete the acquisition of KSMC (see Note 19), and as a result, upon TSXV approval and completion of the intended subsequent acquisition, the Company will have a 100% beneficial interest in the Yukon Property.

e) Portuguese Exploration Licenses, Portugal

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

In an agreement dated January 24, 2014, the Company sold its Portuguese subsidiary which owns the Portuguese exploration licenses to Medgold Resource Ltd., a subsidiary of Medgold Resources Corp. (“Medgold”), for consideration of $500,000 to be paid in cash or shares or a combination. As at February 28, 2014, the Company has received $50,000 and $100,000 in common shares of Medgold. A gain of $149,742 was recorded in the statement of comprehensive loss in relation to this transaction.

Within 12 months of the agreement, Medgold is required to pay a further $100,000 in cash and $250,000 in cash or Medgold common shares. As at February 28, 2014, the $350,000 has been recorded in amounts receivable. The Company will retain a 2% NSR over the existing exploration licenses, of which Medgold Resource Ltd. may purchase all or parts of the NSR for $1,000,000 per percentage point.

(Expressed in Canadian dollars)

9. INVESTMENT IN JOINT VENTURE

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

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

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

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

For the year ended February 28, 2014 net and comprehensive loss of KG46 was $801,335 (which includes depreciation of $91,544, interest expense of $11,614 and income taxes of $Nil). The Company's 50% share of the loss was $400,668.

For the year ended February 28, 2014 the Company was credited with a 1% annual production royalty of $2,868 (February 28, 2013 $2,232). Prior to the Company receiving revenue payment beyond the 1% annual production royalty, 46799 Yukon Inc. is to receive $1,000,000 to repay their initial funding of KG46. The exploration, development and all mining rights to the property are subject to existing royalties of 10% of gross production.

Equity Investment Continuity

Balance as at February 29, 2012	$	-
Current year contributions		174,345
Share of loss in joint venture investment		(47,688)
Balance as at February 28, 2013	$	126,657
Current year contributions		814,037
Share of loss in joint venture investment		(400,668)
Balance as at February 28, 2014	**$**	**540,026**

Summarized Financial Information of KG46 at February 28, 2014

Current assets	$	369,171
Equipment		1,725,692
Current liabilities		(677,044)
Due to join venture partners		(2,263,763)
Deficit	**$**	**(845,944)**

(Expressed in Canadian dollars)

10. LOANS

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

Subsequent to February 28, 2014, the Company signed additional loan agreements in the amount of $175,000, carried at 10% interest per annum, compounded monthly at the last business day of each month, payable on August 31, 2014.

11. RELATED PARTY BALANCES AND TRANSACTIONS

Key Management Compensation

	YEARS ENDED FEBRUARY 28 2014	YEARS ENDED FEBRUARY 28 2013
Consulting and wages	**$ 314,385**	$ 252,100

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

In addition to consulting and wages, $93,078 was deferred in exploration and evaluation assets for the year ended February 28, 2014 (February 28, 2013 - $12,000).

On March 22, 2013, the Company granted 3,200,000 incentive stock options to former directors and officers of the Company for a period of three years. Included in stock based compensation expense for the year ended February 28, 2014 is $150,748 (2013 - $326,374) for options issued to former directors and officers.

Other Related Party Transactions

In addition to related party transactions disclosed in the available-for-sale investments note and the mineral properties note, the Company entered into the following transactions and had the following balances payable with related parties. The transactions were recorded at fair value. Balances outstanding are non-interest bearing, unsecured and had no specific terms for collection or repayment.

a) Due to related parties comprised $26,535 (February 28, 2013 - $4,408) payable to three companies each controlled separately by a directors and a former director, $Nil (February 28, 2013 - $39,960) to companies with common directors and $32,100 (February 28 2013 - $31,503) to former directors and officers.

b) Under an agreement for services and cost recovery, the Company was charged administration fees of $19,910 (February 28, 2013 - $180,000) by a company controlled by a former director. The agreement has been terminated. Under an agreement for services and cost recovery, the Company was charged administration fees of $45,000 (February 28, 2013 - $Nil) by a company controlled by a director.

(Expressed in Canadian dollars)

11. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

c) The Company was charged $6,386 (February 28, 2013 – $6,000) for rent in the Yukon by a former director. This amount was included in exploration and evaluation assets. The Company has amounts receivable from companies with directors formerly in common in the amount of $17,551 (February 28, 2013 - $17,551) for expenses and shared mineral property costs. The advances are unsecured, non-interest bearing and have no fixed terms of repayment. The Company has a receivable from a former director of $nil (February 28, 2013 - $25,000).

d) Loans included $25,000 (February 28, 2013 - $Nil) due to a director of the Company.

12. SHARE CAPITAL

a) Authorized: Unlimited common shares without par value.

b) During the year ended February 28, 2014, the following private placements were completed: In March 2013, 9,850,000 shares were issued for total proceeds of $880,000. In conjunction with the placement the Company paid cash commissions of $27,840. In October 2013, 1,200,000 units were issued for total proceeds of $62,000. Each unit consisted of one common share and one half common share purchase warrant. Each full warrant entitles the holder to purchase one common share at a price of $0.12 until October 30, 2016. In conjunction with the placement the Company paid cash commissions of $4,000.

c) During the year ended February 28, 2013, the following private placements were completed: In October 2012, 5,874,999 units were issued for total proceeds of $600,000. Each unit consisted of one common share and one half common share purchase warrant. Each full warrant entitles the holder to purchase one common share at a price of $0.20 until October 22, 2015. In February 2013 18,030,000 shares were issued for total proceeds of $1,489,100. In conjunction with the placements the Company paid cash commissions of $7,600.

d) Warrants

	NUMBER OF WARRANTS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, March 1, 2012	8,328,221	$ 0.75
Issued	2,937,500	0.20
Expired	(1,600,827)	0.63
Balance, February 28, 2013	9,664,894	0.71
Issued	600,000	0.12
Expired	(5,994,060)	0.86
Balance, February 28, 2014	**4,270,834**	**$ 0.41**

(Expressed in Canadian dollars)

12. SHARE CAPITAL (Continued)

d) Warrants (continued)

As at February 28, 2014 the following share purchase warrants were outstanding:

TOTAL NUMBER OF WARRANTS	EXERCISE PRICES	EXPIRY DATE
406,667	$1.50	September 30, 2014
326,667	$1.50	November 15, 2014
2,937,500	$0.20	October 22, 2015
600,000	$0.12	October 30, 2016
4,270,834		

As at February 28, 2014 the weighted average remaining contractual life of the share purchase warrants was 1.62 years and the weighted average exercise price was $0.41 (February 28, 2013 - 1.40 years and $0.71).

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

	NUMBER OF OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE
Balance, March 1, 2012	787,993	$ 1.50
Granted	4,040,000	0.20
Expired	(125,667)	1.50
Balance, February 28, 2013	4,702,326	0.38
Granted	5,325,000	0.10
Expired/Cancelled	(3,634,659)	0.33
Balance, February 28, 2014	6,392,667	$ 0.16

The following summarizes stock options outstanding and exercisable as at February 28, 2014:

EXERCISE PRICE	NUMBER OF OPTIONS OUTSTANDING	NUMBER OF OPTIONS EXERCISABLE	REMAINING CONTRACTUAL LIFE (YEARS)	EXPIRY DATE
$0.10	1,000,000	1,000,000	0.01	March 4, 2014
$0.20	750,000	750,000	0.01	March 4, 2014
$1.50	33,333	33,333	0.01	March 4, 2014
$0.10	250,000	187,500	1.06	March 21, 2015
$0.20	250,000	-	2.06	March 21, 2016
$0.10	2,325,000	2,325,000	2.06	March 21, 2016
$1.50	9,334	9,334	2.93	February 1, 2017
$0.20	1,775,000	1,775,000	3.00	February 28, 2017
	6,392,667	6,080,167		

As at February 28, 2014 the weighted average remaining contractual life of the options was 1.28 years and the weighted average exercise price was $0.15 (February 28, 2013 – 3.78 years and $0.38). Subsequent to February 28, 2014, 4,533,333 options were cancelled.

12. SHARE CAPITAL (Continued)

f) Share-based Payments

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

On March 22, 2013, the Company granted 3,200,000 incentive stock options to directors and officers of the Company and 1,625,000 to employees for a period of three years. The fair value of the stock options was estimated on the date of grant in the amount of $227,300 using the Black-Scholes valuation model with the following assumptions i) exercise price per share of $0.10; ii) expected share price volatility of 113%; iii) risk free interest rate of 1.12%; iv) no dividend yield. All of these options vested immediately. Included in stock based compensation expense is $150,748 for options issued to directors and officers.

On March 22, 2013, the Company granted 500,000 incentive stock options to an investor relations firm for a period of two years. The fair value of the stock options was estimated on the date of grant in the amount of $8,500 using the Black-Scholes valuation model with the following assumptions i) exercise price per share of $0.10 and $0.20; ii) expected share price volatility of 99%; iii) risk free interest rate of 1.00; iv) no dividend yield. These options vest every three months in tranches of 62,500. Included in stock based compensation expense for the year ended February 28, 2014 was $2,150 for options issued to an investor relations firm.

g) Flow-Through Expenditure Commitments

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

13. ACQUISITION OF LONESTAR GOLD INC.

On December 29, 2011 the Company completed an exempt take-over bid to acquire a 79.82% interest in the shares of Lonestar Gold Inc. (“Lonestar”) a privately held British Columbia company.

As at February 28, 2014 Lonestar had current assets of $111,676 (February 28, 2013 $342,541), (which includes cash and cash equivalents of $9,109 (February 28, 2013 $144,338)), non-current assets of $1,249,119 (February 28, 2013 $1,089,081), current liabilities of $20,365 (February 28, 2013 $22,369), non-current liabilities of $Nil (February 28, 2013 $Nil). Net and comprehensive loss for the year ended February 28, 2014 was $68,822 (February 28, 2013 $27,201).

For the year ended February 28, 2014 the loss allocated to non-controlling interests of the subsidiary was $13,886 (February 28, 2013 $5,488). The accumulated non-controlling interest in the subsidiary was $513,709 (February 28, 2013 $527,595).

(Expressed in Canadian dollars)

14. MANAGEMENT OF CAPITAL

The Company manages its cash, common shares, stock options and warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. The Company does not have any externally imposed capital requirements to which it is subject.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt, acquire or dispose of assets or adjust the amount of cash and cash equivalents.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury on deposit in an interest bearing Canadian chartered bank account.

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

As at February 28, 2014, the classification of the financial instruments, as well as their carrying values and fair values, are shown in the table below:

	HELD FOR TRADING	LOANS AND RECEIVABLES/ AMORTIZED COST	AVAILABLE -FOR-SALE	TOTAL CARRYING VALUE	FAIR VALUE
Financial assets					
Cash	$ 73,681	$ -	$ -	$ 73,681	$ 73,681
Restricted cash	10,000	-	-	10,000	10,000
Available-for-sale Investments	-	-	207,738	207,738	207,738
Reclamation Bonds	3,500	-	-	3,500	3,500
Amounts receivable	-	376,890	-	376,890	376,890
	$ 87,181	$ 376,890	$ 207,738	$ 671,809	$ 671,809
Financial liabilities					
Accounts payable and accrued liabilities	$ -	$ (335,186)	$ -	$ (335,186)	$ (335,186)
Due to related parties	-	(33,974)	-	(33,974)	(33,974)
Loan	-	(511,781)	-	(511,781)	(511,781)
	$ -	$ (880,941)	$ -	$ (880,941)	$ (880,941)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

At February 28, 2014 and 2013, the Company's financial instruments which are measured at fair value on a recurring basis are cash and marketable securities which are classified as Level 1.

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

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

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

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

a) Commodity Price Risk

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

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

b) Liquidity Risk

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

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

c) Foreign Currency Risk

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

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

(Expressed in Canadian dollars)

15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

c) Foreign Currency Risk (continued)

Based on the Company's net exposure every 1% change in the Canadian Dollar/European Euro exchange rate would impact the Company's earnings by approximately $1,693 (2013 - $Nil). As this sensitivity analysis does not take into account any variables other than foreign currency rate fluctuations, the above information may not fully reflect the fair value of the assets and liabilities involved. The Company manages foreign currency risk by minimizing the fair value of financial instruments denominated in foreign currency.

16. COMMITMENTS

Operating Lease Commitment

The Company leases office premises with a remaining lease term of 0.67 years. The Company's commitment for future minimum payments in respect of the operating lease commitment is as follows:

	February 28, 2014
Short-term portion of the lease (<1 Year)	$ 27,632
Long-term portion of the lease (Year 2-3)	-
	$ 27,632

KG46 holds a mortgage with a remaining term of 1.38 years. KG46's commitment for future minimum payments in respect of the mortgage commitment is as follows:

	February 28, 2014
Short-term portion of the lease (<1 Year)	$ 121,524
Long-term portion of the lease (Year 2-3)	178,550
	$ 300,074

(Expressed in Canadian dollars)

17. INCOME TAXES

The recovery of income taxes shown in the statements of loss and deficit differs from the amounts obtained by applying statutory Federal and Provincial tax rates to the years ended February 28, 2014 and 2013:

	2014	2013
Statutory tax rate	26%	25%
	$	$
Income tax recovery at statutory rates	(1,570,000)	(368,000)
Effect of change in tax rates	(151,000)	-
Permanent difference	144,000	168,000
Flow-through renunciations	21,000	453,000
Change in tax assets not recognized	1,444,000	(372,000)
Other	43,300	106,500
Deferred income tax recovery	(68,700)	(12,500)

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

The significant components of the Company's deferred income tax assets were as follows:

	2014	2013
	$	$
Marketable securities	9,000	9,000
Capital assets	45,000	15,000
Non-capital loss carry forwards	2,256,000	1,799,000
Capital loss carry forwards	630,000	668,000
Resource deductions	2,168,000	1,162,000
Share issue costs	27,000	38,000
	5,135,000	3,691,000
Deferred tax assets not recognized	(5,135,000)	(3,691,000)
Net deferred income tax assets	-	-

(Expressed in Canadian dollars)

17. INCOME TAXES (Continued)

The Company has available non-capital tax losses of approximately $8,679,000 which may be carried forward and offset against future Canadian taxable income. The losses expire as follows:

Expiry Date	$
2015	487,000
2026	676,000
2027	617,000
2028	785,000
2029	1,392,000
2030	908,000
2031	721,000
2032	780,000
2033	957,000
2034	1,356,000
	8,679,000

The Company has capital losses carried forward of approximately $4,843,000 (2013 – $5,342,000) that may be carried forward indefinitely.

The Company has Canadian resource pools of approximately $13,127,000 (2013 - $13,073,000) available to offset future taxable income. The tax benefit of these amounts is available for carry-forward indefinitely. The Company has foreign resource pools of approximately $Nil (2013 - $25,000).

18. SUPPLEMENTARY CASH FLOW INFORMATION

Non-cash Transactions

During the year ended February 28, 2014, the Company received 800,000 share of Medgold as partial consideration for the sale of the Company's Portugal assets (Note 8(e)).

During the year ended February 28, 2014, the Company received 700,000 shares of PJX as consideration for the sale of the Company's Vine property in British Columbia (Note 8(b)).

19. SUBSEQUENT EVENTS

Acquisition of Klondike Star Mineral Corp. ("KSMC")

Subsequent to February 28, 2014, a total of 49,165,463 common shares ("KSMC Shares") of KSMC, a private Delaware company, representing an aggregate of 71% of the outstanding KSMC Shares, had been validly tendered to Klondike Gold's offer (the "Offer") to acquire all of the outstanding KSMC Shares. The Offer has formally expired and will not be extended. Upon completion of the KSMC Shares acquisition, Klondike Gold will own and control 71% of the outstanding KSMC Shares.

19. SUBSEQUENT EVENTS (Continued)

Acquisition of KSMC (continued)

Pursuant to the Offer, holders of KSMC Shares will receive 0.25 of one common share of Klondike Gold (each a "Klondike Gold Share") for each KSMC Share tendered. As a result of having over 70% of the KSMC shares tendered under the Offer, Klondike Gold intends to settle US $1,077,894 of debt owed by KSMC to related parties. In settlement of these debts the KSMC related party creditors will receive an aggregate of 21,557,880 warrants to purchase shares of Klondike Gold, exercisable at CDN $0.10 per share for 30 months from issuance subject to TSXV approval.

The purpose of the Offer was to enable Klondike Gold to consolidate ownership of the gold properties in the Yukon by acquiring beneficial ownership of all outstanding KSMC Shares. Klondike Gold intends to implement a subsequent share acquisition transaction to acquire the balance of the outstanding KSMC shares. Upon this acquisition, Klondike Gold will beneficially own 100% of KSMC.

Assignment of Lease on Indian River Property

Subsequent to February 28, 2014, the Company and 46799 Yukon Inc. (the "Assignors") signed an assignment of lease agreement with Jerusalem Mining LLC (the "Assignee") pursuant to which, the Assignors assign to the Assignee all of the rights, benefits and obligations of a portion of the Indian River placer property (see Note 9) until December 31, 2014. The parties may agree to extend the term for consecutive one year periods by mutual agreement prior to November 30 of each calendar year. In consideration, the Assignee has granted to the Assignors a 20% royalty on gross production of gold, subject to a minimum annual payment of 100 ounces raw gold, or cash equivalent.