

NORTHERN FREEGOLD RESOURCES LTD.
(An Exploration Stage Corporation)
Consolidated Financial Statements

December 31, 2013 and 2012

(Expressed in Canadian dollars)

Independent Auditor's Report**To the Shareholders of
Northern Freegold Resources Ltd.**

We have audited the accompanying consolidated financial statements of Northern Freegold Resources Ltd. and its subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012, 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 audits 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 Northern Freegold Resources Ltd. and its subsidiaries as at December 31, 2013 and December 31, 2012 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of Northern Freegold Resources Ltd. to continue as a going concern.

"Crowe MacKay LLP"**Chartered Accountants
Vancouver, British Columbia
April 9, 2014**

NORTHERN FREEGOLD RESOURCES LTD.
(An Exploration Stage Corporation)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	December 31, 2013	December 31, 2012
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	725,190	614,977
Trade and other receivables	26,905	173,578
Prepayments and deposits	121,451	57,822
	<u>873,546</u>	<u>846,377</u>
Non-current assets		
Exploration advances	355,331	355,331
Property, plant and equipment (Note 4)	71,843	97,943
Investments in equities (Note 5)	1	7,500
Exploration and evaluation assets (Notes 6 and 9)	34,387,710	33,843,503
	<u>34,814,885</u>	<u>34,304,277</u>
Total assets	<u><u>35,688,431</u></u>	<u><u>35,150,654</u></u>
LIABILITIES		
Current liabilities		
Trade and other payables (Note 9)	138,867	121,504
Other liabilities (Note 7)	-	43,467
	<u>138,867</u>	<u>164,971</u>
Non-current liabilities		
Reclamation provision	25,000	-
	<u>25,000</u>	<u>-</u>
Total liabilities	<u><u>163,867</u></u>	<u><u>164,971</u></u>
SHAREHOLDERS' EQUITY		
Share capital (Note 7)	46,305,046	44,764,471
Contributed surplus (Note 7)	3,831,318	3,712,269
Accumulated other comprehensive income(loss)	(379,999)	(372,500)
Deficit	(14,231,801)	(13,118,557)
	<u>35,524,564</u>	<u>34,985,683</u>
Total equity and liabilities	<u><u>35,688,431</u></u>	<u><u>35,150,654</u></u>

Nature and continuance of operations (Note 1)
Commitments and contingencies (Notes 6 and 8)

APPROVED ON BEHALF OF THE BOARD

"John Burges"

John Burges
Director

"Tim Termuende"

Tim Termuende
Director

NORTHERN FREEGOLD RESOURCES LTD.
(An Exploration Stage Corporation)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

Year Ended December 31	2013	2012
	\$	\$
Expenses		
Administrative expenses	192,041	336,875
Depreciation	23,600	32,262
Investor relations expenses	146,884	889,342
Listing and filing fees	37,111	46,571
Professional fees (Note 9)	190,961	207,392
Share-based payments (Notes 7 and 9)	225,239	302,949
Wages and salaries (Note 9)	393,683	704,808
	<u>1,209,519</u>	<u>2,520,199</u>
Loss before other items	(1,209,519)	(2,520,199)
Other items		
Interest and other income	10,595	34,822
Other income	43,467	-
Write down of exploration and evaluation assets (Note 6)	(64,688)	(2,530,862)
Foreign currency translation differences	711	(750)
Option proceeds over carrying value	-	25,000
Loss before income taxes	(1,219,434)	(4,991,989)
Deferred income tax recovery (Note 13)	-	591,372
Loss for the year	(1,219,434)	(4,400,617)
Other comprehensive income (loss)		
Net change in fair value of equities	(7,499)	(105,625)
Total comprehensive loss for the year	(1,226,933)	(4,506,242)

Basic and diluted loss per share	(\$0.01)	(\$0.04)
Weighted average number of shares - basic and diluted	144,899,236	117,870,529

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

NORTHERN FREEGOLD RESOURCES LTD.
(An Exploration Stage Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian dollars)

	Share Capital	Contributed Surplus	Accumulated other comprehensive income (loss)	Retained Earnings (deficit)	Total Equity
	\$	\$	\$	\$	\$
Balance, December 31, 2011	43,296,695	3,337,394	(266,875)	(8,717,940)	37,649,274
Shares issuance (Note 7(b))	1,467,776	-	-	-	1,467,776
Share-based payments (Note 7(d))	-	302,949	-	-	302,949
Fair value of warrants	-	71,926	-	-	71,926
Loss for the period	-	-	-	(4,400,617)	(4,400,617)
Other comprehensive loss	-	-	(105,625)	-	(105,625)
Balance, December 31, 2012	44,764,471	3,712,269	(372,500)	(13,118,557)	34,985,683
Shares issuance (Note 7(b))	1,540,575	-	-	-	1,540,575
Share-based payments (Note 7(d))	-	225,239	-	-	225,239
Fair value of expired warrants	-	(106,190)	-	106,190	-
Fair value of warrants	-	-	-	-	-
Loss for the period	-	-	-	(1,219,434)	(1,219,434)
Other comprehensive loss	-	-	(7,499)	-	(7,499)
Balance, December 31, 2013	46,305,046	3,831,318	(379,999)	(14,231,801)	35,524,564

NORTHERN FREEGOLD RESOURCES LTD.**(An Exploration Stage Corporation)****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Expressed in Canadian dollars)**

Year Ended December 31	2013	2012
	\$	\$
Cash flows from operating activities		
Loss for the year	(1,219,434)	(4,400,617)
Items not involving cash		
Depreciation	23,600	32,262
Share-based payments	225,239	302,949
Write down of exploration and evaluation assets	64,688	2,530,862
Other income	(43,467)	-
Option proceeds in excess of carrying value	-	(25,000)
Deferred income tax expense	-	(591,372)
Foreign currency translation differences	(711)	750
	<u>(950,085)</u>	<u>(2,150,166)</u>
Change in non-cash working capital		
Trade and other receivables	146,673	52,411
Prepayments and deposits	(63,629)	53,329
Trade and other payables	28,107	(127,347)
	<u>(838,934)</u>	<u>(2,171,773)</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	-	(5,460)
Proceeds from disposal of property, plant and equipment	2,500	-
Exploration advances and other	-	(355,331)
Cash payments received on option properties	-	25,000
Exploration expenditures	(585,639)	(2,171,502)
	<u>(583,139)</u>	<u>(2,507,293)</u>
Cash flows from financing activities		
Proceeds on issuance of common shares, net of share issuance costs	1,531,575	1,561,919
	<u>1,531,575</u>	<u>1,561,919</u>
Foreign exchange on cash and cash equivalents	711	(750)
Increase (decrease) in cash and cash equivalents	110,213	(3,117,897)
Cash and cash equivalents , beginning of year	614,977	3,732,874
Cash and cash equivalents , end of year	725,190	614,977
Cash and Cash Equivalents consist of:		
Cash	\$690,690	\$580,477
Term Deposit	34,500	34,500
	<u>\$725,190</u>	<u>\$614,977</u>

In 2013, the Company made no cash payments for interest (2012 - \$nil) and made no cash payments for income taxes (2012 - \$nil). The company received \$10,595 in cash payments for interest (2012 - \$16,564).

Non-cash investing and financing activity

During the year ended December 31, 2013, the Company issued 150,000 (2012 -125,000) common shares with a value of \$9,000 (2012 -\$21,250) for mineral exploration property agreements.

NORTHERN FREEGOLD RESOURCES LTD.

(An Exploration Stage Corporation)

Notes to the consolidated financial statements

December 31, 2013

(Expressed in Canadian dollars)

1. Nature and continuance of operations

Northern Freegold Resources Ltd. (the "Company") was incorporated under the Alberta Business Corporations Act on January 13, 2006 and was extra-provincially registered in British Columbia and the Yukon Territory. The Company is listed on the TSX Venture Exchange, having the symbol NFR.V. The Company's principal business activity is the exploration for mineral resources, primarily in the Yukon Territory, Canada and Arizona, USA.

The Company's corporate office and principal place of business is Suite 502, 535 Thurlow Street, Vancouver, British Columbia, Canada.

The financial statements have been prepared on a going concern basis which assumes the Company will realize its assets and discharge its liabilities in the normal course of business. The Company's ability to continue as a going concern is dependent upon its ability in the future to achieve profitable operations and, in the meantime, to obtain the necessary financing to meet its obligations and repay its liabilities when they become due. External financing, predominantly by the issuance of equity to the public, will be sought to finance the operations of the Company. Although the Company has a history of raising money, there is no guarantee of this in the future. As a result, there exists material uncertainty which raises significant doubt about the Company's ability to continue as a going concern. These 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.

2. Basis of preparation

(a) Statement of compliance

The consolidated financial statements for the Company for the year ended December 31, 2013 are prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB").

These consolidated financial statements were authorized for issue by the Board of Directors on April 9, 2014.

(b) Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as FVTPL and available-for-sale which are stated at their fair value.

In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

These consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

(c) Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to make certain judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

NORTHERN FREEGOLD RESOURCES LTD.

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Notes to the consolidated financial statements

December 31, 2013

(Expressed in Canadian dollars)

2. Basis of preparation (continued)

(c) Use of estimates and judgments (continued)

The estimates and underlying assumptions are continuously evaluated and reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Significant accounting estimates

- a. The inputs used in accounting for share-based payments in profit or loss;
- b. The assessment of indications of impairment of each mineral property and related determination of the net realizable value and write-down of those properties where applicable;
- c. The tax basis of assets and liabilities and related deferred income tax assets and liabilities; and
- d. Amounts of provisions, if any, for environmental rehabilitation and restoration.

Significant accounting judgments

- a. The useful lives for depreciation of property and equipment;
- b. The determination of categories of financial assets and financial liabilities has been identified as an accounting policy which involves judgments or assessments made by management; and
- c. The analysis of the functional currency for each entity of the Company. In concluding that the Canadian dollar is the functional currency of the parent and its subsidiary companies, management considered the currency that mainly influences the cost of providing goods and services in each jurisdiction in which the Company operates. As no single currency was clearly dominant the Company also considered secondary indicators including the currency in which funds from financing activities are denominated and the currency in which funds are retained.

3. Significant accounting policies

(a) Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, Bushmaster Exploration Services (2007) Ltd., Northern Freegold (USA) Inc. and Northern Freegold (USA) LLLP. All significant intercompany transactions and balances have been eliminated upon consolidation. The financial statements of the subsidiaries are prepared using consistent accounting policies and reporting dates of the Company. The functional currency for each of the Company's subsidiaries is the Canadian dollar.

(b) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

NORTHERN FREEGOLD RESOURCES LTD.

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Notes to the consolidated financial statements

December 31, 2013

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

(c) Leased assets

Leases, the terms of which cause the Company to assume substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are allocated between capital and interest. The interest element is charged to the statement of comprehensive loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Leases where substantially all of the risks and rewards incidental to ownership are not transferred to the Company are operating leases. The total rentals payable under the lease are charged to the statement of comprehensive loss on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

(d) Mineral exploration and evaluation expenditures

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash or other consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess consideration accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are tested for impairment before the assets are transferred to development properties.

NORTHERN FREEGOLD RESOURCES LTD.

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Notes to the consolidated financial statements

December 31, 2013

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

(d) Mineral exploration and evaluation expenditures (continued)

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

(e) Property, plant and equipment

Property, plant and equipment ("PPE") are carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recorded on a declining balance basis at the following annual rate, except in the year of acquisition when one-half of the rate is used:

Automotive	30%
Computer equipment	30%
Computer software	100%
Equipment	20%

An item of PPE 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 in the consolidated statement of comprehensive income or loss.

Where an item of PPE comprises major components with different useful lives, the components are accounted for as separate items of PPE. Expenditures incurred to replace a component of an item of PPE that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

(f) Reclamation obligations

The Company recognizes liabilities for statutory, constructive or legal obligations associated with the reclamation of mineral properties, or plant and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The Company records the present value of the estimated costs of statutory, legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. Upon initial recognition of the liability, the corresponding asset retirement cost is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the amount or timing of the underlying cash flows needed to settle the obligation.

NORTHERN FREEGOLD RESOURCES LTD.

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Notes to the consolidated financial statements

December 31, 2013

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

(g) Impairment of non-financial assets

At the end of each reporting period the carrying amounts of the assets are reviewed to determine whether there is any indication that those assets are impaired. Impairment is recognized when the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the greater of the asset's fair value less costs to sell and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. The impairment loss is recognized in the statement of comprehensive income/loss for the period.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount had no impairment loss been recognized. A reversal of an impairment loss is recognized immediately in comprehensive income/loss.

(h) Income taxes

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

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.

(i) Foreign currency translation

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the reporting date and the related translation differences are recognized in profit and loss in the statement of comprehensive loss.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated.

NORTHERN FREEGOLD RESOURCES LTD.

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Notes to the consolidated financial statements

December 31, 2013

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

(j) Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants, options and flow-through shares are classified as equity instruments. Incremental costs directly attributable to the issue of new shares or options are recognized as a deduction from equity, net of tax.

Flow-through shares

Resource expenditure deductions for income tax purposes related to exploratory activities funded by flow-through share arrangements are renounced to investors in accordance with income tax legislation. 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. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the period is disclosed separately as flow-through share proceeds in Note 7, if any.

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 qualifying expenditures are incurred.

Valuation of equity units issued in private placements

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as contributed surplus. If the warrants expire unexercised, the value attributed to the warrants is transferred to deficit.

(k) Earnings (loss) per common share

Basic earnings/loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

NORTHERN FREEGOLD RESOURCES LTD.

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Notes to the consolidated financial statements

December 31, 2013

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

(l) Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss/income over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss/income over the remaining vesting period.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss/income, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

The fair value of each option granted was calculated at the time of the grant by using the Black-Scholes option pricing model based on historical volatility.

(m) Financial instruments

Financial Assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held-to-maturity, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Regular way purchases and sales of FVTPL financial assets are accounted for at trade date, as opposed to settlement date. The Company has classified its cash and cash equivalents as FVTPL.

NORTHERN FREEGOLD RESOURCES LTD.

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Notes to the consolidated financial statements

December 31, 2013

(Expressed in Canadian dollars)

3. Significant accounting policies (continued)

(m) Financial instruments (continued)

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's exploration advances and trade and other receivables are classified as loans-and-receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company's investments in equities are classified as available-for-sale. The criteria for designating financial assets as available for sale are those not classified as either held for trading, accounts receivable, or held to maturity.

Transactions costs associated with FVTPL and available-for-sale 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.

Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income/loss. The Company has not classified any financial liabilities as FVTPL.

(n) Investments in equities

Investments in equities are shares held of other publicly traded companies on the TSXV. These are designated as available-for-sale and are therefore recorded at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered impaired. The Company measures fair value at the quoted closing bid price on the last day of trading in the period. Any transactions are recorded at the trade date.

(o) New accounting pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the December 31, 2013 reporting period. The company plans to adopt the new accounting pronouncements when they become effective for the reporting period of the Company. These standards and interpretations have not been adopted and are yet to be assessed by the Company:

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3. Significant accounting policies (continued)

(o) New accounting pronouncements (continued)

- New standard **IFRS 9, Financial Instruments**, classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement." IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit and loss. The effective date has not been determined.
- Amendments to **IFRS 10, Consolidated Financial Statements, IFRS 12, Disclosures of Interests in Other Entities and IAS 27, Separate Financial Statements** with an effective date for annual periods beginning or after January 1, 2014. The amendments provides for the definition of an investment entity and sets out an exception to consolidating particular subsidiaries of an investment entity. The amendments also deal with the disclosures required and preparation of separate financial statements of an investment entity.
- Amendments to **IAS 32, Financial Instruments: Presentation**, to provide clarifications on the application of the offsetting rules. This standard is effective for years beginning on or after January 1, 2014.
- Amendments to **IAS 36, Impairment of Assets**, requiring disclosure of the recoverable amount of an asset or cash generating unit, and the basis for the determination of fair value less costs of disposal, when an impairment loss is recognized or when an impairment loss is subsequently reversed. This standard is effective for years beginning on or after January 1, 2014.

4. Property, plant and equipment

	Automotive	Computer equipment	Computer software	Equipment	Total
<i>Cost</i>	\$	\$	\$	\$	\$
Balance at December 31, 2011	109,742	131,046	110,756	137,370	488,914
Additions	-	3,112	-	2,348	5,460
Disposals	-	-	-	-	-
Balance at December 31, 2012	109,742	134,158	110,756	139,718	494,374
Additions	-	-	-	-	-
Disposals	(2,500)	-	-	-	(2,500)
Balance at December 31, 2013	107,242	134,158	110,756	139,718	491,874
<i>Depreciation</i>					
Balance at December 31, 2011	86,033	95,863	109,965	72,308	364,169
Depreciation for the year	7,113	11,022	791	13,336	32,262
Disposals	-	-	-	-	-
Balance at December 31, 2012	93,146	106,885	110,756	85,644	396,431
Depreciation for the year	4,604	8,182	-	10,814	23,600
Disposals	-	-	-	-	-
Balance at December 31, 2013	97,750	115,067	110,756	96,458	420,031
<i>Carrying amounts</i>					
At December 31, 2011	23,709	35,183	791	65,062	124,745
At December 31, 2012	16,596	27,273	-	54,074	97,943
At December 31, 2013	9,492	19,091	-	43,260	71,843

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5. Investments in equities

The Company holds securities that have been designated as available-for-sale as follows:

	<u>At Cost</u>	<u>At Market</u>
<u>Balance, December 31, 2012</u>		
1,500,000 common shares of Dawson Gold Corp.	\$380,000	\$7,500
<u>Balance, December 31, 2013</u>		
*150,000 common shares of Dawson Gold Corp.	\$380,000	\$1 **

* In February 2013, Dawson Gold Corp. consolidated its issued and outstanding share capital such that every 10 existing shares are consolidated into one new share.

** The shares of Dawson Gold Corp. have been ceased trading on TSX venture exchange since November 17, 2013. Due to no market value at December 31, 2013, the Company has written down the value of the shares to \$1.

For securities traded in an active market, market value is based on the quoted closing bid prices of the securities at the financial statement date. The fair value of these securities may differ from the quoted trading price due to the effect of market fluctuations and adjustment for quantities traded.

6. Exploration and evaluation assets

The Company has classified its exploration properties into three separate geographical locations, namely Freegold Mountain Yukon, Other Yukon and Burro Creek USA. The following is a summary of acquisition and exploration expenditures in the above-noted areas:

	<u>Freegold Mountain, YT</u>	<u>Other, YT</u>	<u>Burro Creek, AZ</u>	<u>Total</u>
Balance, December 31, 2011	\$31,916,376	\$458,565	\$1,928,919	\$34,303,860
<u>Additions 2012</u>				
Administration expenses	58,971	-	14,692	73,663
Camp expenses	123,154	-	-	123,154
Drilling costs	337,596	-	-	337,596
Geological costs	570,126	2,686	6,949	579,761
Geophysical costs	-	-	-	-
Transportation	32,659	14,925	-	47,584
Travel and accommodation	22,321	-	-	22,321
<u>Wages and labor costs</u>	<u>665,224</u>	<u>11,600</u>	<u>-</u>	<u>676,824</u>
Total exploration costs	1,810,051	29,211	21,641	1,860,903
Acquisition costs	117,074	711	91,817	209,602
<u>Total 2012 additions</u>	<u>1,927,125</u>	<u>29,922</u>	<u>113,458</u>	<u>2,070,505</u>
Total cumulative expenditures	33,843,501	488,487	2,042,377	36,374,365
Write down of mineral properties	-	(488,486)	(2,042,376)	(2,530,862)
<u>Balance, December 31, 2012</u>	<u>\$33,843,501</u>	<u>\$1</u>	<u>\$1</u>	<u>\$33,843,503</u>

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6. Exploration and evaluation assets (continued)

	<u>Freegold Mountain, YT</u>	<u>Other, YT</u>	<u>Burro Creek, AZ</u>	<u>Total</u>
Balance, December 31, 2012	\$33,843,501	\$1	\$1	\$33,843,503
<u>Additions 2013</u>				
Administration expenses	34,531	-	5,779	40,310
Camp expenses	4,662	-	-	4,662
Drilling costs	-	-	-	-
Geological costs	289,157	-	28,831	317,988
Geophysical costs	-	-	-	-
Transportation	1,900	-	-	1,900
Travel and accommodation	4,061	-	-	4,061
Wages and labor costs	134,896	-	-	134,896
Total exploration costs	469,207	-	34,610	503,817
Acquisition costs	75,000	-	30,078	105,078
Total 2013 additions	544,207	-	64,688	608,895
Total cumulative expenditures	34,387,708	1	64,689	34,452,398
Write down of mineral properties in 2013			(64,688)	(64,688)
Balance, December 31, 2013	\$34,387,708	\$1	\$1	\$34,387,710

<u>Cumulative Expenditures</u>				
	<u>Freegold Mountain, YT</u>	<u>Other, YT</u>	<u>Burro Creek, AZ</u>	<u>Total</u>
Administration expenses	\$ 635,295	\$ -	\$ 91,851	\$ 727,146
Camp expenses	2,420,073	-	80,516	2,500,589
Drilling costs	12,333,983	-	543,221	12,877,204
Geological costs	4,447,999	39,227	241,895	4,729,121
Geophysical costs	1,286,667	-	-	1,286,667
Transportation	1,152,142	21,614	89,655	1,263,411
Travel and accommodation	530,994	-	36,114	567,108
Wages and labor costs	8,919,739	15,633	232,025	9,167,397
Exploration tax credit	(300,000)	-	-	(300,000)
Total Exploration costs	31,426,892	76,474	1,315,277	32,818,643
Acquisition costs	2,960,816	412,013	791,788	4,164,617
Total cumulative expenditures	34,387,708	488,487	2,107,065	36,983,260
Write down of mineral properties	-	(488,486)	(2,107,064)	(2,595,550)
Balance, December 31, 2013	\$ 34,387,708	\$ 1	\$ 1	\$34,387,710

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6. Exploration and evaluation assets (continued)

(a) Freegold Mountain, Yukon

Freegold Mountain project is comprised of the following individual exploration properties:

(i) Tinta Hill property

The Company has acquired a 100% interest in the Tinta Hill property subject to an advanced royalty payment and a 3% NSR from Bill Harris (a director) by making cash payments of \$10,000, issuing 2,250,000 common shares and incurring \$500,000 in exploration expenditures.

As per the agreement the Company has committed to make \$20,000 annual advanced royalty payments to the property owner when the property owner ceases to be an insider, a director, officer or beneficial owner of greater than 10% of the issued and outstanding common shares of the Company. The advanced royalty payment will be netted against royalty interest payments after commencement of commercial production.

Of the 3% NSR, the Company can elect to purchase 2% at a cost of \$250,000 for the first 1% and \$1,000,000 for the second 1%.

(ii) Freegold property

The Company has acquired a 100% interest in the Freegold property subject to an advanced royalty payment and a 3% NSR from Bill Harris (a director) by making cash payments of \$5,000, issuing 750,000 common shares and incurring \$500,000 in exploration expenditures.

As per the agreement the Company has committed to make \$10,000 annual advanced royalty payments to the property owner when the property owner ceases to be an insider, a director, officer or beneficial owner of greater than 10% of the issued and outstanding common shares of the Company. The advanced royalty payment will be netted against royalty interest payments after commencement of commercial production.

Of the 3% NSR, the Company can elect to purchase 2% at a cost of \$250,000 for the first 1% and \$1,000,000 for the second 1%.

(iii) Goldstar property

Under the terms of option agreement dated March 15, 2006 with Bill Harris (a director) and a private investor, the Company acquired a 100% interest in the Goldstar property by making aggregate cash payments of \$415,000 and incurring aggregate expenditures of \$500,000, subject to a 3% NSR.

Pursuant to this option agreement, the Company has committed to make \$10,000 annual advanced royalty payment to the property owner in the event that the property owner ceases to be an insider of the Company. The advanced royalty payment will be netted against royalty interest payments after the commencement of commercial production.

The net smelter return royalty and the advance royalty payments will be granted and paid to the property owners on the condition that the related party to such agreements is not a director, officer or beneficial owner of greater than 10% of the issued and outstanding common shares of the Company.

Of the 3% NSR, the Company can elect to purchase 2% at a cost of \$500,000 for the first 1% and \$1,000,000 for the second 1%.

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6. Exploration and evaluation assets (continued)

(a) Freegold Mountain, Yukon (continued)

(iv) Golden Revenue property

Under the terms of agreements dated March 15, 2006 and August 22, 2007, the Company acquired a 100% interest in the Golden Revenue property (including Nucleus Zone), Nitro and Sey properties by making aggregate cash payments of \$185,000 and issuing 2,300,000 common shares to ATAC Resources Ltd. ("ATAC").

ATAC has retained a 1% NSR on the above property. An underlying 2% NSR on the Revenue Zone (part of the property) exists and 1.5% NSR can be purchased for \$600,000.

The Company as part of its impairment analysis, evaluates its mineral exploration assets or mineral properties based on management's thresholds of whether a property is technically feasible and potential commercial viability exists. No impairment provision has been recorded on Freegold property for the year ended December 31, 2013.

(b) Burro Creek, Arizona USA

On May 3, 2007, the Company entered into an agreement with Coelton Ventures Ltd. ("Coelton"), whereby the Company can acquire 100% of Coelton's interest in the Burro Creek property, subject to the following items:

(1) make cash payments to the optionor on or before the execution of the agreement:

- (i) \$25,000 on signing of the agreement (paid);
- (ii) \$40,000 as a reimbursement of expenses incurred by the optionor (paid);

(2) incur aggregate expenditures of \$900,000 as detailed below and by the times described, with any amounts expended in any period in excess of the amount required to be expended carried forward into the subsequent period or periods:

- (i) \$50,000 on or before May 3, 2008 (incurred);
- (ii) \$100,000 on or before May 3, 2009 (incurred);
- (iii) \$250,000 on or before May 3, 2010 (incurred);
- (iv) \$250,000 on or before May 3, 2011 (incurred);
- (v) \$250,000 on or before May 3, 2012 (incurred);

(3) make aggregate cash payments of \$275,000 to the optionor as follows:

- (i) \$25,000 on or before November 3, 2007 (paid);
- (ii) \$50,000 on or before May 3, 2008 (paid);
- (iii) \$50,000 on or before May 3, 2009 (paid);
- (iv) \$50,000 on or before May 3, 2010 (paid);
- (v) \$50,000 on or before May 3, 2011 (paid);
- (vi) \$50,000 on or before May 3, 2012 (paid);

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6. Exploration and evaluation assets (continued)

(b) Burro Creek, Arizona USA (continued)

(4) issue and deliver an aggregate of 1,000,000 fully paid and non-assessable common shares of the Company to the optionor as follows:

- (i) 100,000 shares on execution of the agreement (issued);
- (ii) 100,000 shares on or before May 3, 2008 (issued);
- (iii) 100,000 shares on or before May 3, 2009 (issued);
- (iv) 125,000 shares on or before May 3, 2010 (issued);
- (v) 125,000 shares on or before May 3, 2011 (issued);
- (vi) 125,000 shares on or before May 3, 2012 (issued);
- (vii) 150,000 shares on or before May 3, 2013 (issued);
- (viii) 175,000 shares on or before May 3, 2014;

The underlying vendors have retained a 3% NSR (2% of which can be purchased by making cash payments totaling US\$1,100,000) and will receive a payment of US\$500 per month to be included in, and not addition to, the royalty payments.

Due to the limitation of cash resources, the Company has been unable to explore the property to the full extent. Under the provisions of IFRS 6 and 36, the Company has written down the value of the property to \$1. When economic conditions change, the Company may pursue further exploration.

During the year ended December 31, 2013, the Company wrote down exploration and evaluation expenditures in the amount of \$ 64,688 (2012- \$2,042,376).

(c) Other Yukon

The Other Yukon projects are comprised of the following individual exploration properties:

(i) Tad/Toro property

Under the terms of an agreement dated March 21, 2007, the Company acquired a 100% interest in the Tad/Toro property from Bill Harris (a director) and his siblings by making aggregate cash payments of \$50,000 and issuing 300,000 common shares. The vendors retained an underlying 3% NSR, of which the first 1% may be purchased for \$500,000 and a second 1% for \$1,000,000.

(ii) Nit property

Under the terms of an agreement dated August 22, 2007, the Company acquired a 100% interest in the Nit gold-silver property from ATAC Resources Ltd., subject to a 1% NSR, by issuing a total of 100,000 common shares.

The Company currently has an agreement with Dawson Gold Corporation whereby Dawson may earn a 100% interest in the Tad/Toro and Nit properties by:

(1) Paying \$125,212 in cash to the Company as follows:

- (i) \$25,212 upon signing the agreement (received);
- (ii) \$25,000 upon the sooner of 120 days from the date of execution of the Agreement or the closing date of a Going Public Transaction (January 1, 2010) (received);
- (iii) \$25,000 on or before January 1, 2011 (received);
- (iv) \$25,000 on or before January 1, 2012 (received);
- (v) \$25,000 on or before January 1, 2013 (outstanding);

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6. Exploration and evaluation assets (continued)

(c) Other Yukon (continued)

(2) Issuing 3,000,000 shares to the Company as follows:

- (i) 1,000,000 shares on the date of the Initial Payment Date (received);
- (ii) 750,000 shares before the first anniversary of the Initial Payment Date (received);
- (iii) 1,250,000 shares before the second anniversary of the Initial Payment Date (received);

On November 23, 2011, Dawson Gold consolidated its issued and outstanding share capital such that every two existing shares were consolidated into one new share. In February 2013, Dawson Gold further consolidated its issued and outstanding share capital such that every ten existing shares were consolidated into one new share.

(3) Incurring aggregate expenditures of \$3,000,000 on the Tad/Toro property as follows:

- (i) \$350,000 on or before the first anniversary of Initial Payment Date (incurred);
- (ii) \$650,000 on or before the second anniversary of Initial Payment Date (incurred);
- (iii) \$1,000,000 on or before the third anniversary of Initial Payment Date (incurred);
- (iv) \$1,000,000 on or before the fourth anniversary of Initial Payment Date;

Should the Company not exercise their rights on the Tad/Toro NSR, Dawson Gold Corporation may exercise those rights.

During the year ended December 31, 2013, as a result of the above option payment received, the Company recorded \$nil (2012 - \$25,000) in income option proceeds in excess of carrying value.

(iii) Severance property

The Company acquired a 100% interest in the Severance property by making aggregate cash payments of \$50,000 and issuing 800,000 common shares to companies which have a common director with the Company.

The vendor has retained an underlying 3% NSR, of which 2% may be purchased for \$1,500,000.

Due to the limitation of cash resources, the Company has been unable to explore the property to the full extent. Under the provisions of IFRS 6 and 36, the Company has written down the value of the property to \$1. When economic conditions change, the Company may pursue further exploration.

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7. Share capital*(a) Authorized*

Unlimited common shares with no par value

Unlimited preferred shares the series rights and restrictions to be determined by the Board of Directors on issuance

(b) Issued and outstanding

	Number of shares	Share Capital
<i>Balance, December 31, 2011</i>	<i>111,545,219</i>	<i>\$43,296,695</i>
Issued pursuant to property acquisition (i)	125,000	21,250
Financing, net of issue costs (ii)	4,456,333	548,478
Financing, net of issue costs (iii)	10,000,000	898,048
<i>Balance, December 31, 2012</i>	<i>126,126,552</i>	<i>44,764,471</i>
Issued pursuant to property acquisition (i)	150,000	9,000
Financing, net of issue costs (ii)	26,058,332	1,531,575
<i>Balance, December 31, 2013</i>	<i>152,334,884</i>	<i>\$46,305,046</i>

2012 Shares issuance

- (i) On April 23, 2012, 125,000 shares were issued pursuant to the Burro Creek property agreement. The price per share was based on the closing bid price on date of issuance, for a total value of \$21,250.
- (ii) On May 10, 2012, the Company closed a brokered private placement with gross proceeds of \$756,480 by issuing 3,587,000 non-flow-through units and 869,333 flow-through units. The flow-through units were priced at \$0.21 per unit, with each flow-through unit consisting of one flow-through eligible common share and one-half of one non-transferable common share purchase warrant. Each whole warrant is exercisable to acquire an additional common share at \$0.26 for 18 months. The non-flow through units were priced at \$0.16 per unit, with each non-flow-through unit consisting of one non-flow-through common share and one-half of one non-transferable common share purchase warrant. Each whole warrant is exercisable to acquire an additional common share at \$0.22 for 24 months. All securities issued in connection with the private placement will be subject to a four month hold period expiring on September 11, 2012.

The warrants on non-flow-through units are valued at \$35,870 and the warrants on flow-through units are valued at \$8,693. Flow-through share premium in the amount of \$43,467 is recorded as other liabilities.

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7. Share capital (continued)

(b) Issued and outstanding (continued)

The Company paid to the Agent, Northern Securities Inc., a cash commission of \$28,160 and expenses in the amount of \$42,550. In addition, the Company issued to the Agent 163,880 warrants (each, a "Compensation Warrant"). Each of the 125,100 Compensation Warrants issued in respect of non-flow-through units (each, a "NFT Compensation Warrant") are exercisable to acquire one unit for \$0.22 for 24 months, and each of the 38,780 Compensation Warrants issued in respect of flow-through units (each, a "FT Compensation Warrant") will be exercisable to acquire one unit for \$0.26 for 18 months. In each case, the units acquired on exercise of the Compensation Warrants will be comprised of one non-flow-through common share and one-half of one non-transferable warrant (each, a "Broker's Warrant"). Each whole Broker's Warrant issued on exercise of a FT Compensation Warrant will be exercisable to acquire one additional non-flow-through common share at \$0.26 for a period ending 18 months after the closing of the offering. Each whole Broker's Warrant issued on exercise of a NFT Compensation Warrant will be exercisable to acquire one additional non-flow-through common share at \$0.22 for a period ending 24 months after the closing of the offering. The Agent did not receive cash commission or Compensation Warrants in respect of subscriptions by insiders of the Company or their immediate family members.

Compensation warrants issued in respect of non-flow-through units and flow-through units are valued at \$5,179 and \$1,072 respectively.

Other expenses in the amount of \$43,011 were recorded related to share issue costs.

- (iii) On August 30, 2012, the Company closed a private placement of 10,000,000 units at \$0.10 per unit for total gross proceeds of \$1,000,000. Each unit (the "Units") consists of one common share and one-half of one non-transferable common share purchase warrant. Each whole warrant is exercisable to acquire an additional common share at \$0.14 for 48 months. In the event that the Company's common shares trade at a twenty-day volume weighted average trading price ("VWAP") of \$0.24 or greater on the TSX Venture Exchange at any time after four months and one day after the Closing Date, the Company may accelerate the expiry date of the Warrants by giving notice to the holders thereof and in such case the warrants will expire on the 30th day after the date on which such notice is given. All securities issued in connection with the private placement will be subject to a four month hold period expiring on December 31, 2012.

The Company also paid \$70,000 in cash and issued 350,000 broker warrants for commissions and finders' fees in connection with the financing. The broker warrants have the same terms as the warrants forming part of the units. Broker warrants are valued at \$21,112.

Other expenses in the amount of \$10,840 were recorded related to share issue costs.

2013 Shares issuance

- (i) On April 25, 2013, 150,000 shares were issued pursuant to the Burro Creek property agreement. The price per share was based on the closing bid price on date of issuance, for a total value of \$9,000.

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7. Share capital (continued)*(b) Issued and outstanding (continued)*

- (ii) In April 2013, the Company closed a private placement by issuing 26,058,332 units at a price of \$0.06 per unit for gross proceeds of \$1,563,500. A total of \$14,770 was paid in finders' fees in connection with the financing. Other expenses in the amount of \$17,155 were recorded relating to share issue costs.

Each Unit consists of one common share and one-half of one non-transferable common share purchase warrant (the "Warrants"). Each whole Warrant is exercisable to acquire an additional common share at \$0.10 for 36 months. In the event that the Company's common shares trade at a 20-day volume-weighted average trading price of \$0.15 cents or greater on the TSX Venture Exchange at any time after four months and one day after the closing date, the Company may accelerate the expiry date of the Warrants by giving notice to the holders thereof, and in such case the Warrants will expire on the 30th day after the date on which such notice is given by the Company.

(c) Contributed surplus

The following is a summary of the composition in contributed surplus from December 31, 2012 to December 31, 2013:

	<u>December 31, 2013</u>	<u>December 31, 2012</u>
Warrants	\$ 62,161	\$ 168,351
Share Options	3,769,157	3,543,918
Contributed Surplus	<u>\$ 3,831,318</u>	<u>\$ 3,712,269</u>

(d) Stock option

The Company has a stock option plan whereby options to purchase common shares are granted by the board of directors to directors, officers, employees and consultants to the Company. Under the terms of the plan, the Company has reserved an amount of common shares for options up to 10% of the issued and outstanding common shares. Options granted under this plan are non-transferable; expire no later than the fifth anniversary of the date the option is granted and must comply with the requirements of the regulatory authorities.

A summary of the status of stock option plan as at December 31, 2013 is as follows:

	Number of Stock options	Original Weighted average exercise price (\$)	New Weighted average exercise price (\$)
Balance, December 31, 2011	10,250,000	0.35	
Options expired	(835,000)	0.43	
Options forfeited	(1,250,000)	0.35	
Options granted	3,225,000	0.24	
Balance, December 31, 2012	11,390,000	0.32	
Options expired	(125,000)	(0.35)	
Options forfeited	(1,150,000)	(0.44)	
Options granted	2,900,000	0.10	
Balance, December 31, 2013	13,015,000	0.26	0.10

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7. Share capital (continued)*(d) Stock option (continued)*

Number of stock options outstanding	Original exercise price (\$)	* Re-price (\$)	New exercise price (\$)	Expiry date	Number of stock options exercisable
295,000	0.35	0.10	0.10	August 9, 2014	295,000
100,000	0.35	0.10	0.10	October 18, 2014	100,000
1,275,000	0.35	0.10	0.10	December 4, 2014	1,275,000
1,575,000	0.35	0.10	0.10	October 26, 2015	1,575,000
75,000	0.17		0.17	March 4, 2016	56,250
70,000	0.10		0.10	July 2, 2016	70,000
2,450,000	0.35	0.10	0.10	August 9, 2016	2,450,000
1,850,000	0.35	0.10	0.10	October 18, 2016	1,850,000
2,570,000	0.17	0.10	0.10	October 10, 2017	2,570,000
2,755,000	0.10		0.10	August 16, 2018	2,755,000
13,015,000	0.26		0.10		12,996,250

* On August 19, 2013, the Company re-priced 10,240,000 stock options issued to directors, officers, employees, and consultants to reflect current market conditions. The options were granted in 2009, 2010, 2011 and 2012 at exercise prices ranging from \$0.17 to \$0.35. The new exercise price is set at \$0.10 with vesting provisions and expiry dates of the re-priced options remaining unchanged.

The fair value of each stock option granted was estimated at the time of the grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

	2013	2012
Share price	\$0.05	\$0.15
Exercise price	\$0.10	\$0.24
Risk free interest rate	1.00%	2.21%
Expected life of options (Years)	4.90	4.4
Annualized volatility	80%	74%
Dividend rate	Nil	Nil
Fair value	\$ 0.03	\$ 0.08

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7. Share capital (continued)*(d) Stock option (continued)*

The following weighted average assumptions were used for the Black-Scholes valuation of stock options re-priced during the year:

	2013	2012
Share price	\$0.06	-
Exercise price	\$0.10	-
Risk free interest rate	1.00%	-
Expected life of options (Years)	2.86	-
Annualized volatility	77%	-
Dividend rate	Nil	Nil
Fair value	\$ 0.02	-

Fair value of stock options granted and re-priced during the year ended December 31, 2013 is \$103,967 (2012 - \$302,949) and \$121,272 (2012 - \$nil) respectively.

(e) Share purchase warrants

At December 31, 2013, the Company had warrants outstanding and exercisable as follows:

	Warrants	Weighted Average Exercise Price
Balance, December 31, 2011	29,842,836	\$ 0.45
Granted	7,742,047	0.17
Balance, December 31, 2012	37,584,883	0.39
Granted	13,029,167	0.10
Expired	(30,316,283)	0.45
Balance, December 31, 2013	20,297,767	\$ 0.12

The following warrants are outstanding at December 31, 2013:

Number of Warrants	Exercise price	Expiry date	Remaining life (Years)
125,100	\$0.22	10-May-2014	0.36
1,793,500	\$0.22	10-May-2014	0.36
6,884,167	\$0.10	5-April-2016	2.26
6,145,000	\$0.10	23-April-2016	2.31
5,350,000	\$0.14	30-Aug-2016	2.67
<u>20,297,767</u>			

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7. Share capital (continued)

(f) Shareholder rights plan

Effective March 23, 2012, a shareholder rights plan was adopted to ensure the fair treatment of all shareholders with respect to any takeover bid for the common shares of the Company. It is designed to provide shareholders with sufficient time to properly consider a takeover bid without undue time constraints. It will also provide the board with additional time for review and consideration of an unsolicited takeover bid and, if necessary, for the consideration of alternatives. The shareholder rights plan is not being adopted in response to any proposal to acquire control of the Company.

8. Commitments and contingencies

As of December 31, 2013, the Company has \$34,500 in term deposits with a Canadian financial institution for the guarantee of business credit cards.

Under the terms of the Company's by-laws, the Company indemnifies individuals who have acted at the Company's request to be a director and/or officer of the Company. The claims covered by such indemnifications are subject to statutory and other legal limitation periods.

9. Related party transactions

The Company had the following transactions involving key management during the year ended December 31, 2013,

- (a) An officer of the Company provided accounting services to the Company. Fees incurred during the year were \$36,000 (2012 - \$51,000), of which \$3,150 (2012 - \$3,360) is included in trade and other payables.
- (b) An officer of the Company provided geological services to the Company. Fees incurred during the year were \$44,000 (2012 - \$35,000), of which \$3,000 (2012 - \$nil) is included in trade and other payables.
- (c) Wages and salaries of \$251,125 (2012 - \$363,821) were paid to officers of the Company.
- (d) A director of the Company provided geological services to the Company. Fees incurred during the year were US\$13,000 (2012 - US\$15,000).
- (e) A director of the Company provided consulting services to the Company. Fees incurred during the year were \$2,000 (2012 - \$28,000).
- (f) A director of the Company provided consulting services to the Company. Fees incurred during the year were \$nil (2012 - \$71,000).
- (g) The Company paid \$36,750 (2012 - \$36,750) to a director of the Company in accordance with the terms of Goldstar property agreement.
- (h) During the year ended December 31, 2013, total of 2,250,000 (2012- 1,545,000) stock options were granted to the key management for a total share based compensation of \$56,700 (2012 - \$129,790).
- (i) An officer of the Company provided consulting services to the Company. Fees incurred during the year were \$60,000 (2012 - \$nil).

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties. Amounts due to/from the related parties are non-interest bearing, unsecured and have no fixed terms of repayment. Fair value cannot be readily determined.

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10. Segmented information

The Company operates in one operating segment, that being exploration of mineral properties. The Company's exploration and evaluation assets by geographic location are as follows:

	December 31, 2013	December 31, 2012
	\$	\$
Yukon, Canada	34,387,709	33,843,502
Arizona, USA	1	1
Total	34,387,710	33,843,503

11. Capital management

The Company includes cash and cash equivalents and equity, comprising of issued common shares, contributed surplus, accumulated other comprehensive income (loss) and deficit, in the definition of capital.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended December 31, 2013. The Company is not subject to externally imposed capital requirements.

12. Financial instruments

The Company is exposed in varying degrees to a variety of financial instrument related risks by virtue of its activities. The overall financial risk management program focuses on preservation of capital, and protecting current and future Company assets and cash flows by reducing exposure to risks posed by the uncertainties and volatilities of financial markets.

The types of risk exposure and the way in which such exposures are managed are as follows:

Credit Risk - The Company's credit risk is primarily attributable to its liquid financial assets. The Company limits exposure to credit risk on liquid financial assets through maintaining its cash and cash equivalents with high-credit quality financial institutions. The Company does not have financial assets that are invested in asset backed commercial paper.

Liquidity Risk - The Company's cash is invested in business accounts with high-credit quality financial institutions and which is available on demand for the Company's programs. Currently the Company's capital is not sufficient to meet long term business requirements when taking into account cash flows

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12. Financial instruments (continued)

from operations and the Company's holdings of cash and cash equivalents. Future operations or exploration programs will require additional financing primarily through equity markets.

Market Risk – Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk exposures to which the Company is exposed are:

Price risk - The Company's investment designated as available-for-sale is traded on the TSX Venture Exchange. A \$0.01 change in the quoted share price would change the fair value of the investments by approximately \$1,500. The change would be recorded in accumulated other comprehensive income.

Interest rate risk – In respect to the Company's financial assets, the interest rate mainly arises from the interest rate impact on our cash and cash equivalents. For the year ended December 31, 2013, every 1% fluctuation in interest rates up or down would have impacted net income up or down by approximately \$7,250 before income taxes.

Foreign currency risk - The Company is exposed to foreign currency risk to the extent that certain monetary financial instruments and other assets are denominated in United States dollars. The Company has not entered into any foreign currency contracts to mitigate this risk, as it believes this risk is minimized by the minimal amount of cash held in United States funds.

Commodity price risk – The value of the Company's mineral resource properties is related to the price of various commodities and the outlook for them. Commodity prices have historically fluctuated widely and are affected by numerous factors outside of the Company's control, including, but not limited to, industrial retail demand, central bank lending, forward sales by producers and speculators, level of worldwide production and short-term changes in supply and demand.

Fair Value - The Company has various financial instruments comprised of cash and cash equivalents, receivables, investments and trade and other payables.

For disclosure purposes, all financial instruments measured at fair value are categorized into one of three hierarchy levels, described below. Each level is based on the transparency of the inputs used to measure the fair values of assets and liabilities:

Level 1 – Values based on unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities.

Level 2 – Values based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability.

Level 3 – Values based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

December 31, 2013	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 725,190	\$ -	\$ -	\$ 725,190
Investments	\$ 1	\$ -	\$ -	\$ 1

December 31, 2012	Level 1	Level 2	Level 3	Total
Assets:				
Cash and cash equivalents	\$ 614,977	\$ -	\$ -	\$ 614,977
Investments	\$ 7,500	\$ -	\$ -	\$ 7,500

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13. Income taxes

- (a) As of December 31, 2013, a reconciliation of the statutory tax rate to the average effective rate for the Company is as follows:

	2013	2012
	\$	\$
Loss before income taxes	(1,219,434)	(4,991,989)
Statutory tax rate	25.75%	25.00%
Tax recovery at statutory rate	(314,004)	(1,247,997)
Non-deductible expenses	58,197	76,707
Effect of tax rate change	(44,334)	-
Tax benefits (recognized) unrecognized	300,141	579,918
Deferred income tax recovery	-	(591,372)

- (b) The component of the Company's deferred income tax asset is a result of the origination and reversal of temporary differences and is comprised of the following:

	December 31, 2013	December 31, 2012
	\$	\$
Non-capital losses carried forward	3,819,379	3,367,311
Share issue costs	93,728	161,006
Other	147,245	52,352
	4,060,352	3,580,669
Unrecognized deferred tax assets	(1,658,442)	(1,264,628)
Net deferred income tax assets	2,401,910	2,316,041
Deferred income tax liability		
Mineral exploration properties	(2,401,910)	(2,316,041)
Net deferred income tax liability	-	-

- (c) At December 31, 2013, the Company has non-capital losses of approximately \$14,770,000 that may be carried forward to apply against future income taxes expiring as follows:

2026	\$ 477,000
2027	1,574,000
2028	1,862,000
2029	2,013,000
2030	2,049,000
2031	3,099,000
2032	2,476,000
2033	1,220,000
	<u>\$14,770,000</u>

- (d) As of December 31, 2013, subject to confirmation by income tax authorities, the Company has approximately the following available tax pools:

	2013	2012
Undepreciated capital cost	\$ 445,576	\$ 444,964
Resource-related deductions	22,168,073	21,559,178
Undeducted share issue costs carried forward	360,493	644,025
	<u>\$ 22,974,142</u>	<u>\$ 22,648,167</u>

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14. Accumulated other comprehensive income (loss)

Accumulated other comprehensive income or loss is comprised solely of unrealized gains and losses on financial assets classified as available-for-sale.