

**NORTHERN FREEGOLD RESOURCES LTD.**  
**( An Exploration Stage Corporation)**  
**Condensed Consolidated Interim Financial Statements**  
For the Period Ended September 30, 2011  
( Unaudited - prepared by management)  
(Expressed in Canadian dollars)

**NORTHERN FREEGOLD RESOURCES LTD.**  
**UNAUDITED**  
**INTERIM FINANCIAL STATEMENTS**

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the unaudited financial statements for the quarter ended September 30, 2011.

**NOTICE TO READER**  
**OF THE INTERIM FINANCIAL STATEMENTS**

The financial statements of Northern Freegold Resources Ltd. and the accompanying interim financial statements as at September 30, 2011 are the responsibility of the Company's management.

These financial statements have not been reviewed on behalf of the shareholders by the independent external auditors of the Company, MacKay LLP.

The interim financial statements have been prepared by management and include the selection of appropriate accounting principles, judgments and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards.

"John Burges"

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John Burges  
CEO, Director

"Glen J Diduck"

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Glen J. Diduck  
CFO, Director

**NORTHERN FREEGOLD RESOURCES LTD.****( An Exploration Stage Corporation)****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION****(Unaudited, expressed in Canadian dollars)**

	<b>September 30, 2011</b>	December 31, 2010	January 1, 2010
		(Note 14)	(Note 14)
	\$	\$	\$
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	<b>5,836,938</b>	3,426,370	5,393,272
Trade and other receivables	<b>187,390</b>	99,393	28,935
Prepayments and deposits	<b>190,381</b>	83,381	81,543
	<b>6,214,709</b>	3,609,144	5,503,750
<b>Non-current assets</b>			
Exploration advances	-	5,677	70,812
Property, plant and equipment (Note 4)	<b>132,867</b>	153,562	197,286
Investments in equities (Note 5)	<b>87,500</b>	200,000	-
Exploration and evaluation assets (Note 6)	<b>33,468,403</b>	29,125,910	25,473,252
	<b>33,688,770</b>	29,485,149	25,741,350
<b>Total assets</b>	<b>39,903,479</b>	33,094,293	31,245,100
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables	<b>643,362</b>	275,115	369,956
Other Liabilities	-	27,657	-
	<b>643,362</b>	302,772	369,956
<b>Non-current liabilities</b>			
Deferred income tax liabilities	<b>1,371,945</b>	1,106,839	1,474,235
<b>Total liabilities</b>	<b>2,015,307</b>	1,409,611	1,844,191
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 7)	<b>43,017,849</b>	35,075,968	31,568,401
Contributed surplus (Note 7)	<b>2,967,255</b>	2,196,203	2,754,179
Accumulated other comprehensive income(loss)	<b>(255,000)</b>	-	-
Deficit	<b>(7,841,932)</b>	(5,587,489)	(4,921,671)
	<b>37,888,172</b>	31,684,682	29,400,909
<b>Total equity and liabilities</b>	<b>39,903,479</b>	33,094,293	31,245,100

Nature and continuance of operations (Note 1)  
Commitments and contingencies (Notes 6 and 8)  
Subsequent events (Note 13)

APPROVED ON BEHALF OF THE BOARD

"John Burges"John Burges  
Director"Glen J. Diduck"Glen J. Diduck  
Director

**NORTHERN FREEGOLD RESOURCES LTD.**

( An Exploration Stage Corporation)

**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**

(Unaudited, expressed in Canadian dollars)

	Quarter ended <u>September 30, 2011</u>	Nine months ended <u>September 30, 2011</u>	Quarter ended <u>September 30, 2010</u>	Nine months ended <u>September 30, 2010</u>
	\$	\$	\$	\$
<b>Expenses</b>				
Administrative expenses	87,766	268,850	87,196	231,757
Depreciation	9,794	29,288	15,443	46,030
Investor relations expenses	103,925	418,746	83,345	269,213
Listing and filing fees	9,341	33,528	3,782	20,317
Professional fees	75,409	135,095	14,960	38,835
Share-based payments	746,191	771,052	35,186	71,372
Wages and salaries	221,301	582,609	161,144	490,135
	<u>1,253,727</u>	<u>2,239,168</u>	<u>401,056</u>	<u>1,167,659</u>
<b>Loss before other items</b>	<b>(1,253,727)</b>	<b>(2,239,168)</b>	<b>(401,056)</b>	<b>(1,167,659)</b>
<b>Other items</b>				
Interest and other income	8,564	54,240	6,194	21,760
Foreign currency translation differences	960	435	(534)	(384)
Option proceeds over carrying value	-	167,500	-	-
<b>Loss before income taxes</b>	<b>(1,244,203)</b>	<b>(2,016,994)</b>	<b>(395,396)</b>	<b>(1,146,283)</b>
Deferred income tax recovery (expense)	-	(237,449)	-	-
<b>Loss for the period</b>	<b>(1,244,203)</b>	<b>(2,254,443)</b>	<b>(395,396)</b>	<b>(1,146,283)</b>
<b>Other comprehensive income (loss)</b>				
Net change in fair value of equities	(87,500)	(255,000)	-	-
<b>Total comprehensive loss for the period</b>	<b>(1,331,703)</b>	<b>(2,509,443)</b>	<b>(395,396)</b>	<b>(1,146,283)</b>
Basic and diluted loss per share	( <b>\$0.01</b> )	(\$0.03)	(\$0.01)	(\$0.02)
Weighted average number of shares - basic and diluted	101,353,768	88,806,468	71,096,095	70,971,736

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

	Share Capital	Contributed Surplus	Accumulated other comprehensive income(loss)	Retained Earnings	Total Equity
	\$	\$	\$	\$	\$
<b>Balance, January 1, 2010</b>	<b>31,568,401</b>	<b>2,754,179</b>	<b>-</b>	<b>(4,921,671)</b>	<b>29,400,909</b>
Share issuance	144,500				144,500
Share-based payments		71,372			71,372
Loss for the period				(1,146,283)	(1,146,283)
<b>Balance, September 30, 2010</b>	<b>31,712,901</b>	<b>2,825,551</b>	<b>-</b>	<b>(6,067,954)</b>	<b>28,470,498</b>
Share issuance	3,363,067	10,012			3,373,079
Fair value of warrants		(988,696)		988,696	-
Share-based payments		349,336			349,336
Loss for the period				(508,231)	(508,231)
<b>Balance, December 31, 2010</b>	<b>35,075,968</b>	<b>2,196,203</b>	<b>-</b>	<b>(5,587,489)</b>	<b>31,684,682</b>
Shares issuance	7,941,881				7,941,881
Share-based payments		771,052			771,052
Loss for the period				(2,254,443)	(2,254,443)
Other comprehensive income			(255,000)		(255,000)
<b>Balance, September 30, 2011</b>	<b>43,017,849</b>	<b>2,967,255</b>	<b>(255,000)</b>	<b>(7,841,932)</b>	<b>37,888,172</b>

**NORTHERN FREEGOLD RESOURCES LTD.****( An Exploration Stage Corporation)****CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS****(Unaudited , expressed in Canadian dollars)**

	Nine months ended September 30, 2011	Nine months ended September 30, 2010
	\$	\$
<b>Cash flows from operating activities</b>		
Loss for the period	(2,254,443)	(1,146,283)
Items not involving cash		
Depreciation	29,288	46,030
Share-based payments	771,052	71,372
Option proceeds in excess of carrying value	(167,500)	-
Deferred income tax expense	237,449	-
	<u>(1,384,154)</u>	<u>(1,028,881)</u>
Change in non-cash working capital		
Trade and other receivables	(87,998)	(97,345)
Prepayments and deposits	(107,000)	7,314
Trade and other payables	368,248	273,158
	<u>(1,210,904)</u>	<u>(845,754)</u>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(8,593)	(8,402)
Exploration advances and other	5,677	(67,299)
Cash payments received on option properties	25,000	-
Exploration expenditures	(4,231,993)	(3,282,199)
	<u>(4,209,909)</u>	<u>(3,357,900)</u>
<b>Cash flows from financing activities</b>		
Proceeds on issuance of common shares, net of share issuance costs	7,831,381	-
	<u>7,831,381</u>	<u>-</u>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>2,410,568</b>	<b>(4,203,654)</b>
Cash and cash equivalents , beginning of period	3,426,370	5,393,272
<b>Cash and cash equivalents , end of period</b>	<u><b>5,836,938</b></u>	<u>1,189,618</u>
Cash and Cash Equivalents consist of:		
Cash	\$5,658,688	\$1,011,368
Term Deposit	178,250	178,250
	<u><b>\$5,836,938</b></u>	<u>\$1,189,618</u>

The Company made no cash payments for interest (2010 - \$nil) and made no cash payments for income taxes (2010 - \$nil).

Non-cash investing and financing activity

During the quarter ended September 30, 2011, the Company issued nil (2010 - nil) common shares for mineral exploration property agreements.

# **NORTHERN FREEGOLD RESOURCES LTD.**

(An Exploration Stage Corporation)

Notes to the condensed consolidated interim financial statements

September 30, 2011

(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 900, 475 Howe Street, Vancouver, British Columbia, Canada.

The Company will realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. 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. 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-ending December 31, 2011 will be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), having previously been prepared in accordance with Canadian Generally Accepted Accounting Principles. These condensed consolidated interim financial statements for the three month period ended September 30, 2011 have been prepared in accordance with IAS 34 - *Interim Financial Reporting* and as they are part of the Company's first IFRS annual reporting period, IFRS 1 - *First-time Adoption of International Financial Reporting Standards* has been applied. These condensed consolidated interim financial statements do not include all of the information required for full annual financial statements. However, they have been prepared in accordance with accounting policies the Company expects to adopt in its December 31, 2011 financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2010 annual financial statements and the explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 14.

These condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 28, 2011.

### **(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.

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

## **NORTHERN FREEGOLD RESOURCES LTD.**

(An Exploration Stage Corporation)

Notes to the condensed consolidated interim financial statements

September 30, 2011

(Expressed in Canadian dollars)

### **2. Basis of preparation**

#### (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.

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 areas requiring the use of management estimates and judgment include impairment of mineral properties, impairment of property and equipment, useful lives for depreciation of property and equipment, reclamation and environmental obligations, determining the provision for deferred income taxes, classification of financial instruments and contingencies reported in the notes to the financial statements.

### **3. Significant Accounting Policies**

The accounting policies set out below are expected to be adopted for the year-ending December 31, 2011 and have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRS.

#### (a) Principles of consolidation

These condensed consolidated interim 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 with original maturities of three months or less 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.**

(An Exploration Stage Corporation)

Notes to the condensed consolidated interim financial statements

September 30, 2011

(Expressed in Canadian dollars)

### **3. Significant Accounting Policies (continued)**

(c) Leased assets

Leases in terms of which the Company assumes 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 analyzed 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 also tested for impairment before the assets are transferred to development properties.

## **NORTHERN FREEGOLD RESOURCES LTD.**

(An Exploration Stage Corporation)

Notes to the condensed consolidated interim financial statements

September 30, 2011

(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:

Automobile	30%
Computer	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 plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures are capitalized.

(f) Rehabilitation obligations

The Company recognizes liabilities for statutory, contractual or legal obligations associated with the reclamation of mineral properties, 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 legal and constructive obligations required to restore the exploration sites in the period in which they 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.

As at September 30, 2011, the Company has no asset retirement obligations and accordingly, has not recorded an asset retirement obligation in the consolidated financial statements.

## **NORTHERN FREEGOLD RESOURCES LTD.**

(An Exploration Stage Corporation)

Notes to the condensed consolidated interim financial statements

September 30, 2011

(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. 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 of 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 the reporting date and the related translation differences are recognized in net income.

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.**

(An Exploration Stage Corporation)

Notes to the condensed consolidated interim financial statements

September 30, 2011

(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 Company's period is disclosed separately as flow-through share proceeds in Note 8.

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.**

(An Exploration Stage Corporation)

Notes to the condensed consolidated interim financial statements

September 30, 2011

(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 employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss/income over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

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.

## **NORTHERN FREEGOLD RESOURCES LTD.**

(An Exploration Stage Corporation)

Notes to the condensed consolidated interim financial statements

September 30, 2011

(Expressed in Canadian dollars)

### **3. Significant accounting policies (continued)**

#### (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.

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 long-term investments are classified as available-for-sale.

Transactions costs associated with FVTPL 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 accounts payable and accrued liabilities 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) New accounting pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the September 30, 2011 reporting period. The following standards are assessed not to have any impact on the Company's financial statements:

- IFRS 9, Financial Instruments: effective for accounting periods commencing on or after January 1, 2013.

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### 4. Property, plant and equipment

	September 30, 2011			December 31, 2010		
	Cost	Accumulated Depreciation	Net book value	Cost	Accumulated Depreciation	Net book value
	\$	\$	\$	\$	\$	\$
Automotive	109,742	83,491	26,251	109,742	75,872	33,870
Computer	127,623	91,892	35,731	127,623	81,518	46,105
Computer software	110,756	109,173	1,583	109,173	109,173	-
Equipment	137,371	68,069	69,302	130,392	56,805	73,587
	<u>485,492</u>	<u>352,625</u>	<u>132,867</u>	<u>476,930</u>	<u>323,368</u>	<u>153,562</u>

  

	January 1, 2010		
	Cost	Accumulated Depreciation	Net book value
	\$	\$	\$
Automotive	109,742	61,357	48,385
Computer	120,557	63,274	57,283
Computer software	109,173	96,195	12,978
Equipment	118,433	39,793	78,640
	<u>457,905</u>	<u>260,619</u>	<u>197,286</u>

### 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, January 1, 2010</u>	\$Nil	\$Nil
<u>Balance, December 31, 2010</u>		
1,000,000 (2009 – nil) common shares of Dawson Gold Corp.	\$200,000	\$200,000
<u>Balance, September 30, 2011</u>		
1,750,000 (2010 – nil) common shares of Dawson Gold Corp.	\$342,500	\$87,500

For securities traded in an active market, market value is based on the quoted closing bid prices of the securities at September 30, 2011. 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.

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**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, 2009	\$23,334,516	\$450,010	\$1,688,726	\$25,473,252
<b>Additions 2010</b>				
Administration expenses	59,645	-	4,246	63,892
Camp expenses	242,508	-	-	242,508
Drilling costs	1,306,338	-	-	1,306,338
Geological costs	494,171	-	4,316	498,486
Geophysical costs	345,305	-	-	345,305
Transportation	135,886	-	-	135,886
Travel and accommodation	23,459	-	-	23,459
Wages and labor costs	925,888	-	-	925,888
Total exploration costs	3,533,199	-	8,562	3,541,761
Acquisition costs	135,977	(133,500)	108,420	110,897
Total 2010 additions	3,669,175	(133,500)	116,982	3,652,658
Balance, December 31, 2010	\$27,003,691	\$316,510	\$1,805,708	\$29,125,910

	<u>Freegold Mountain, YT</u>	<u>Other, YT</u>	<u>Burro Creek, AZ</u>	<u>Total</u>
Balance, December 31, 2010	\$27,003,691	\$316,510	\$1,805,708	\$29,125,910
<b>Additions 2011</b>				
Administration expenses	59,571	-	2,597	62,168
Camp expenses	368,365	-	-	368,365
Drilling costs	1,986,403	-	-	1,986,403
Geological costs	315,633	-	6,415	322,049
Geophysical costs	374,333	-	-	374,333
Transportation	115,791	-	-	115,791
Travel and accommodation	38,322	-	-	38,322
Wages and labor costs	816,071	-	-	816,071
Total exploration costs	4,074,489	-	9,012	4,083,501
Acquisition costs	148,273	-	110,720	258,993
Total 2011 additions	4,222,761	-	119,732	4,342,494
Balance, September 30, 2011	\$31,226,453	\$316,510	\$1,925,441	\$33,468,403

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<i>Cumulative Expenditures</i>	<u>Freegold Mountain, YT</u>	<u>Other, YT</u>	<u>Burro Creek, AZ</u>	<u>Total</u>
Administration expenses	523,341	-	70,380	593,721
Camp expenses	2,287,462	-	80,516	2,367,978
Drilling costs	11,818,452	-	543,221	12,361,673
Geological costs	3,392,670	36,541	205,046	3,634,257
Geophysical costs	1,286,667	-	-	1,286,667
Transportation	1,095,606	6,689	89,655	1,191,950
Travel and accommodation	493,283	-	36,114	529,397
Wages and labor costs	7,862,105	4,033	232,025	8,098,163
Exploration tax credit	(300,000)	-	-	(300,000)
Total Exploration costs	28,459,586	47,263	1,256,957	29,763,806
Acquisition costs	2,766,867	269,247	668,483	3,704,597
Balance, September 30, 2011	\$31,226,453	\$316,510	\$1,925,440	\$33,468,403

(a) *Freegold Mountain, Yukon*

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

## (i) Tinta Hill property

On March 15, 2006, the Company entered into an option agreement with Bill Harris to earn a 100% interest, subject to a 3% NSR, in the property through option payments, share issuance and exploration expenditures as detailed below:

<u>Due Date</u>	<u>Option payments</u>	<u>Share issuance</u>
14-Apr-06	\$10,000 (paid)	1,500,000 (issued)
15-Mar-07		150,000 (issued)
15-Mar-08		150,000 (issued)
15-Mar-09		150,000 (issued)
15-Mar-10		150,000 (issued)
15-Mar-11		150,000 (issued)
	<u>\$10,000</u>	<u>2,250,000</u>

A cumulative total of \$500,000 in expenditures must be made prior to March 15, 2011 (incurred). Pursuant to this option agreement, the Company has committed to make \$20,000 annual advanced royalty payments 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 NSR and the advance royalty payments will be granted and paid to the property owner(s) 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 \$250,000 for the first 1% and \$1,000,000 for the second 1%.

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### 6. Exploration and evaluation assets (continued)

#### (ii) Freegold property

On March 15, 2006, the Company entered into an option agreement with Bill Harris to earn a 100% interest, subject to a 3% NSR, in the property through option payments, share issuance and exploration expenditures as detailed below:

<u>Due date</u>	<u>Option payments</u>	<u>Share issuance</u>
14-Apr-06	\$5,000 (paid)	500,000 (issued)
15-Mar-07		50,000 (issued)
15-Mar-08		50,000 (issued)
15-Mar-09		50,000 (issued)
15-Mar-10		50,000 (issued)
15-Mar-11		50,000 (issued)
	<u>\$5,000</u>	<u>750,000</u>

A cumulative total of \$500,000 in expenditures must be made prior to March 15, 2011 (incurred). Pursuant to this option agreement, the Company has committed to make \$10,000 annual advanced royalty payments 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 NSR and the advance royalty payments will be granted and paid to the property owner(s) 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 \$250,000 for the first 1% and \$1,000,000 for the second 1%.

#### (iii) Goldstar property

On March 15, 2006, the Company entered into an option agreement with Bill Harris and a private investor to earn a 100% interest, subject to a 3% NSR, in the property through option payments and exploration expenditures as detailed below:

<u>Due date</u>	<u>Option payments</u>
14-Apr-06	\$5,000 (paid)
1-Jun-06	10,000 (paid)
15-Mar-07	25,000 (paid)
15-Mar-08	50,000 (paid)
15-Mar-09	50,000 (paid)
15-Mar-10	50,000 (paid)
15-Mar-11	75,000 (paid)
15-Mar-12	75,000
15-Mar-13	75,000
	<u>\$415,000</u>

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### **6. Exploration and evaluation assets (continued)**

#### *(a) Freegold Mountain, Yukon (continued)*

A cumulative total of \$500,000 in expenditures must be made prior to March 15, 2013. To March 31, 2011, the Company has incurred \$350,802 in exploration expenditures. 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%.

#### *(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 will retain 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. An underlying 2% NSR on the Nucleus Zone has been purchased for 200,000 shares (issued).

#### *(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);

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### **6. Exploration and evaluation assets (continued)**

*(b) Burro Creek, Arizona USA (continued)*

(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;

(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;
- (vii) 150,000 shares on or before May 3, 2013;
- (viii) 175,000 shares on or before May 3, 2014;

The underlying vendors will retain 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.

On August 17, 2011, VHGI Holdings, Inc. and VHGI Gold, LLC, its wholly-owned operating subsidiary, announced the execution of a Letter of Intent with the Company towards the purchase of Burro Creek Property.

The purchase price for the leases and property was estimated to be US\$4,000,000 with \$2,000,000 to be paid in cash over a twelve month period following the close. The remaining \$2,000,000 was to be made up in VHGI Holdings Common stock. The closing was subject to various conditions precedent, including execution of mutually agreeable definitive documentation and due diligence. The Letter of intent was allowed to lapse on November 25, 2011.

*(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 a director of the Company 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.

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### **6. Exploration and evaluation assets (continued)**

#### *(c) Other Yukon (continued)*

On September 3, 2009, the Company executed an option agreement with 0851045 BC Ltd. (a private B.C. Company) whereby 0851045 BC Ltd. may earn a 100% interest from the Company in the Tad/Toro property and Nit property (Note 5(c)(iii)). On July 6, 2010, 0851045 BC Ltd. entered into an amalgamation agreement with Uldaman Capital Corp. (which has one common director with the Company). On August 9, 2010, Uldaman Capital Corp. changed its name to Dawson Gold Corporation (DYU: TSX-V).

Under the terms of the agreement, 0851045 BC Ltd. shall earn the interest in the Tad/Toro property 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 ("Initial Payment Date") (received);
- (iii) \$25,000 on or before the first anniversary of the Initial Payment Date (received);
- (iv) \$25,000 on or before the second anniversary of the Initial Payment Date;
- (v) \$25,000 on or before the third anniversary of the Initial Payment Date;

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

(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;
- (iv) \$1,000,000 on or before the fourth anniversary of Initial Payment Date;

0851045 BC Ltd. may purchase the first 1% NSR for \$500,000 and may also purchase the second 1% of the 3% NSR for \$1,000,000 if the Company chooses not do so. All terms and conditions agreed by 0851045 BC Ltd. have been assumed by Dawson Gold Corporation, formerly Uldaman Capital Corp.

On November 23, 2011, Dawson Gold consolidated its issued and outstanding share capital such that every two existing shares are consolidated into one new share.

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### 6. Exploration and evaluation assets (continued)

#### (ii) Severance property

Under the terms of an agreement dated March 21, 2007, the Company acquired a 100% interest in the Severance property by making aggregate cash payments of \$50,000 and issuing 300,000 common shares to Copper Canyon Resources Ltd. (which has common directors with the Company).

500,000 shares will be issued upon either a production decision on the property or a change in the control of the Company. The vendor will retain an underlying 3% NSR, of which 2% may be purchased for \$1,500,000. With the acquisition of Copper Canyon Resources Ltd. by NovaGold Resources Inc. in June 2011, the 500,000 shares commitment was assigned to Omineca Mining and Metals Ltd. (which also has common directors with the Company).

Subsequent to quarter end, the 500,000 shares were issued to Omineca Mining and Metals Ltd.

#### (iii) 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, subject to a 1% net smelter return royalty, by issuing a total of 100,000 common shares (issued).

On September 3, 2009, the Company executed an option agreement with Dawson Gold Corp. (formerly 0851045 BC Ltd.) whereby Dawson Gold Corp. may earn a 100% interest from the Company in the Nit property, subject to a 1% net smelter return royalty. Terms of the agreement are disclosed in Note 5(c)(i).

### 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
<b>Balance, January 1, 2010 (restated per note 14)</b>	<b>70,621,095</b>	<b>\$31,568,401</b>
Financing, net of issue costs (i)	11,248,107	3,363,067
Issued pursuant to property acquisition (ii)	475,000	144,500
<b>Balance, December 31, 2010 (restated per note 14)</b>	<b>82,344,202</b>	<b>\$35,075,968</b>
Issued pursuant to property acquisition (iii)	200,000	68,000
<b>Balance, March 31, 2011</b>	<b>82,544,202</b>	<b>\$35,143,968</b>
Issued pursuant to property acquisition (iv)	125,000	42,500
<b>Balance, June 30, 2011</b>	<b>82,669,202</b>	<b>\$35,186,468</b>
Financing, net of issue costs (v)	28,026,849	7,831,381
<b>Balance, September 30, 2011</b>	<b>110,696,051</b>	<b>\$43,017,849</b>

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### **7. Share capital (continued)**

#### *(b) Issued and outstanding (continued)*

##### 2010 Shares issuance

- (i) On October 26, 2010, the Company closed a private placement for gross proceeds of \$3,452,681. The financing was comprised of 6,437,000 non-flow-through units (the "Units") at a price of \$0.30 per unit and 4,347,373 flow-through shares at a price of \$0.35 per share.

Each Unit consists of one common non-flow-through share and one-half of a warrant. Each full warrant entitles the holder to purchase one common share of the Company at a price of \$0.45 per share for a period of 12 months from the closing date.

A total of \$36,128 and 463,734 units in finder's fees were paid in connection with the financing. The finder's fee units have the same terms as the Units.

The Company issued 3,450,367 warrants as part of the private placement noted above. The warrants were valued at \$149,004 using the Black-Scholes option pricing model on the date of grant and were included in contributed surplus at December 31, 2010. The grant-date fair value for the warrants was estimated using the following assumptions: no dividends are to be paid; volatility of 62%; risk free rate of 1.40%; and expected life of 1 year.

- (ii) During the year ended December 31, 2010, the Company issued 475,000 shares pursuant to mineral property options at a price per share based on the closing price on date of issuance, for a value of \$144,500.

##### 2011 Shares issuance

- (iii) During the quarter ended March 31, 2011, the Company issued 200,000 shares pursuant to mineral property options at a price per share based on the closing bid price on date of issuance, for a value of \$68,000.

- (iv) During the quarter ended June 30, 2011, the Company issued 125,000 shares pursuant to mineral property options at a price per share based on the closing bid price on date of issuance, for a value of \$42,500.

- (v) On July 20, 2011, the Company closed the first tranche of the private placement announced on July 18, 2011. A total of 20,000,000 units at a price of \$0.30 per unit were subscribed for gross proceeds of \$6,000,000. Each unit will consist of one common share and one share purchase warrant, each warrant being exercisable to acquire an additional share at \$0.45 for 18 months following the closing. A total of \$305,071, 1,016,905 warrants and 331,975 units in finder's fees were also paid in connection with the financing.

On August 5, 2011, the Company closed the second and final tranche of the private placement announced on July 18, 2011. A total of 7,694,874 units at a price of \$0.30 per unit were subscribed for gross proceeds of \$2,308,462. Each unit consist of one common share and one share purchase warrant, each warrant being exercisable to acquire an additional share at \$0.45 for 18 months following the closing. A total of \$134,974 and 449,914 warrants in finder's fees were also paid in connection with the financing.

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**7. Share capital (continued)***(c) Contributed surplus*

The following is a summary of changes in contributed surplus from January 1, 2010 to September 30, 2011:

	September 30, 2011	December 31, 2010	January 1, 2010
Warrants	\$ 10,012	\$ 10,012	\$ 988,696
Share Options	2,957,243	2,186,191	1,765,483
Contributed Surplus	<u>\$ 2,967,255</u>	<u>\$ 2,196,203</u>	<u>\$ 2,754,179</u>

*(d) Stock option plan*

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 September 30, 2011 is as follows:

<b>Stock options outstanding</b>				
Number of stock options outstanding	Weighted average Exercise price (\$)	Weighted average remaining contractual life	Weighted average remaining contractual life	Number of stock options exercisable
	\$	years		
50,000	0.50	0.30		50,000
15,000	0.50	0.17		15,000
300,000	0.55	0.36		300,000
1,275,000	0.35	3.18		1,275,000
285,000	0.35	1.18		251,850
300,000	0.32	0.61		300,000
150,000	0.32	1.61		150,000
1,575,000	0.35	4.07		1,575,000
325,000	0.35	2.07		124,999
2,450,000	0.35	4.90		2,450,000
1,550,000	0.35	2.90		1,550,000
<u>8,275,000</u>	<u>0.43</u>	<u>1.55</u>		<u>8,041,849</u>

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

	Number of Stock options	Weighted average exercise price per share
Balance, January 1, 2010	5,477,500	\$ 0.47
Options cancelled	(1,092,500)	0.50
Options granted	2,350,000	0.34
Balance, December 31, 2010	6,735,000	0.41
Options cancelled	(2,460,000)	0.50
Options granted	4,000,000	0.35
Balance, September 30, 2011	8,275,000	\$ 0.35

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

	<b>2011</b>	<b>2010</b>
Risk free interest rate	<b>1.12%</b>	<b>1.47%</b>
Expected life of options (Years)	<b>4.2</b>	<b>4.2</b>
Annualized volatility	<b>81%</b>	<b>87%</b>
Dividend rate	<b>Nil</b>	<b>Nil</b>

During the three months ended September 30, 2011, 4,000,000 stock options (2010 - nil) have been granted and the fair value of options vested during the quarter was \$746,191 (2010- \$35,186).

*(e) Share purchase warrants*

At September 30, 2011, the Company had warrants outstanding and exercisable as follows:

	Warrants	Weighted Average Exercise Price
Balance, December 31, 2009	21,351,740	\$ 1.05
Granted	3,450,367	0.45
Cancelled or expired	(12,490,800)	1.25
Balance, December 31, 2010	12,311,307	0.67
Granted	29,493,668	0.45
Cancelled or expired	(8,860,940)	0.75
Balance, September 30, 2011	32,944,035	\$ 0.45

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### 7. Share capital (continued)

(e) *Share purchase warrants (continued)*

The following warrants are outstanding at September 30, 2011 :

Number of Warrants	Exercise price	Expiry date	Contractual remaining life (Years)
3,450,367	\$0.45	October 26, 2011	0.32
21,348,880	\$0.45	January 20, 2013	1.30
<u>8,144,788</u>	\$0.45	February 5, 2013	<u>1.34</u>
32,944,035			1.21

### 8. Commitments and contingencies

The Company has \$178,250 in term deposits with a Canadian financial institution for the guarantee of business credit cards.

The Company has a lease agreement for office space with base rent of \$4,363 per month plus common area expiring on March 31, 2012.

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 related party transactions during the quarter ended September 30, 2011 for compensation to key management.

- (a) A director of the Company provided accounting services to the Company. Fees incurred during the quarter ended September 30, 2011 were \$17,500 (2010 - \$4,050).
- (b) A director of the Company provided consulting services to the Company. Fees incurred during the quarter ended September 30, 2011 were \$25,500 (2010 - \$25,500).
- (c) A director of the Company was paid a lead director's fee retainer at a rate of US\$5,000 per month. Fees incurred during the quarter ended September 30, 2011 were US\$15,000 (2010 - US\$15,000).
- (d) A law firm of which a director of the Company is a partner provided legal services to the Company. Fees incurred during the quarter ended September 30, 2011 were \$9,036 (2010 - \$4,711).
- (e) A director of the Company provided consulting services to the Company. Fees incurred during the quarter ended September 30, 2011 were \$20,000 (2010 - \$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 mineral exploration properties by geographic location are as follows:

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
	\$	\$
Yukon, Canada	<b>31,542,963</b>	27,320,202
Arizona, USA	<b>1,925,440</b>	1,805,708
Total	<b>33,468,403</b>	29,125,910

### 11. Capital management

The Company includes cash and cash equivalents and equity, comprising of issued common shares, contributed surplus 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 quarter ended September 30, 2011. 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 ensures that there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. The Company believes that these sources will be sufficient to cover the likely short and long term cash requirements. 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.

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### **12. Financial instruments (continued)**

*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. A \$0.01 change in the quoted share price would change the fair value of the investments by approximately \$17,500. 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 and reclamation deposits. For the period ended September 30, 2011, every 1% fluctuation in interest rates up or down would have impacted net income up or down by approximately \$14,500 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 accounts payable and accrued liabilities.

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.

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**12. Financial instruments (continued)**

September 30, 2011	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 5,836,938	\$ -	\$ -	\$ 5,836,938
Investments	\$ 87,500	\$ -	\$ -	\$ 87,500
<hr/>				
December 31, 2010	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 3,426,370	\$ -	\$ -	\$ 3,426,370
Investments	\$ 200,000	\$ -	\$ -	\$ 200,000
<hr/>				
January 1, 2010	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 5,393,272	\$ -	\$ -	\$ 5,393,272
Investments	\$ -	\$ -	\$ -	\$ -

The carrying amounts and fair values of financial assets and liabilities are as follows:

	September 30, 2011		December 31, 2010		January 1, 2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	\$	\$	\$	\$	\$	\$
<u>FVTPL</u>						
Cash and cash equivalents	5,836,938	5,836,938	3,426,370	3,426,370	5,393,272	5,393,272
<u>Loans and Receivables</u>						
Trade and other receivables	187,391	187,391	99,393	99,393	28,935	28,935
Exploration advances	-	-	5,677	5,677	70,812	70,812
<u>Available-for-sale</u>						
Investments in equities	87,500	87,500	200,000	200,000	-	-
<u>Financial Liabilities</u>						
Trade and other payables	643,362	643,362	275,115	275,115	369,956	369,956

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### **13. Subsequent events (in addition to those transactions disclosed elsewhere)**

- (a) On October 18, 2011, subject to TSX Venture Exchange approval, the Company granted 1,990,000 stock options at an price of \$0.35 to officers, directors, employees and consultants of the Company. Some of the options were granted to replace options that had expired and the remainders are new grants. The options are set for a period of 5 years for directors and officers and 3 years for all other optionees, expiring on October 18, 2016 and October 18, 2014 respectively and are subject to vesting provisions according to Company policies. Any shares issued on the exercise of these stock options will be subject to a four-month hold period from date of grant.
- (b) On October 18, 2011, the Company announced that in conjunction with senior management appointments, the Company will offer a limited private placement of up to 350,000 units priced at \$.30 for net proceeds of up to \$105,000. Each unit will consist of a common share and a share purchase warrant, each warrant being exercisable to acquire an additional share at \$0.45 for 18 months following the date of closing. No finder's fees or commissions will be paid in relation to the financing.
- (c) Subsequent to quarter end, the Company issued 500,000 shares to Omineca Mining and Metals Ltd. for Severance property (note 6(ii)).

### **14. Transition to IFRS**

As described in Note 2, the consolidated financial statements for the year ending December 31, 2011 will be the first annual financial statements that comply with IFRS and these interim consolidated financial statements are prepared in accordance with IAS 34 - *Interim Financial Reporting* and IFRS 1 - *First-time Adoption of IFRS*. IFRS requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS is January 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all IFRS standards as of the reporting date, which for the Company will be December 31, 2011. However, it also provides for certain optional exemptions for first-time adopters which we have elected on adoption as follows:

- (a) IFRS 2 - *Share-based Payments* encourages application of its provisions to equity instruments granted on or before November 7, 2002, but permits the application only to equity instruments granted after November 7, 2002 that had not vested by the Transition Date. The Company elected and applied IFRS 2 for all equity instruments granted after November 7, 2002 that had not vested by its Transition Date.
- (b) Certain amounts on the statement of financial position and statement of comprehensive income have been reclassified to conform to the presentation adopted under IFRS. There were no changes to the statement of cash flow.

#### **Explanation of adjustments:**

- (I) Flow-through shares

Under pre-changeover Canadian GAAP, the entire proceeds from the issuance of flow-through shares were recognized in equity less the tax effects of renunciation. Under IFRS, on issuance of flow-through shares, 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.

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### **14. Transition to IFRS (continued)**

As a result, for issuances of flow-through shares for which expenditures have been incurred, share capital was increased by \$263,378 at the date of transition (December 31, 2010 - \$(43,474)), contributed surplus was decreased by \$179,445 at the date of transition (December 31, 2010 - \$Nil) and retained earnings were decreased by \$83,933 (December 31, 2010 - \$Nil).

Where flow-through shares were issued but expenditures not incurred by the end of the reporting period, a liability is shown in 'other liabilities'. This resulted in a liability of \$Nil at the date of transition (December 31, 2010 - \$27,657).

#### (II) Change in accounting policy for valuation of units

Effective January 1, 2011, the Company changed its accounting policy with respect to the valuation of equity units issued in private placements.

The Company previously valued warrants issued in conjunction with equity units first, using the Black-scholes pricing model and the residual value assigned to share capital. If the warrants expired unexercised, the value attributed to the warrants was attributed to share capital. The Company has changed its policy to value shares first, using market values, and the residual if any, assigned to warrants. If the warrants expire unexercised, the value attributable to the warrants is attributed to retained earnings.

The impact of the change in accounting policy as at January 1, 2010, September 30, 2010 and December 31, 2010 is an increase of share capital within the Statement of Financial Position of \$4,111,379, \$4,111,379 and \$4,250,370 respectively with a corresponding decrease in contributed surplus.

For warrants which expired subsequent to the date of transition, the impact of the change in accounting policy as at December 31, 2010 is a decrease in share capital of \$1,948,196, increase in contributed surplus of \$959,500 and an increase in retained earnings of \$988,696. There was no impact as at January 1, 2010 and September 30, 2010.

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**14. Transition to IFRS (continued)****Reconciliation of Assets , Liabilities and Equity**

		As at January 1, 2010		
	Note	Canadian GAAP	Effect of transition	IFRS
		\$	\$	\$
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		5,393,272		5,393,272
Trade and other receivables		28,935		28,935
Prepaid expenses and deposits		81,543		81,543
<b>Total current assets</b>		<b>5,503,750</b>		<b>5,503,750</b>
Non-current assets				
Exploration advances		70,812		70,812
Property, plant and equipment		197,286		197,286
Mineral exploration properties		25,473,252		25,473,252
<b>Total non-current assets</b>		<b>25,741,350</b>		<b>25,741,350</b>
<b>TOTAL ASSETS</b>		<b>31,245,100</b>		<b>31,245,100</b>
<b>LIABILITIES</b>				
Current liabilities				
Trade and other payables		369,956		369,956
Non-current liabilities				
Deferred income tax liabilities	(I)	1,474,235		1,474,235
<b>Total Liabilities</b>		<b>1,844,191</b>		<b>1,844,191</b>
<b>SHAREHOLDER'S EQUITY</b>				
Share capital	(I), (II)	27,193,644	4,374,757	31,568,401
Contributed surplus	(I), (II)	7,045,003	(4,290,824)	2,754,179
Retained earnings	(I)	(4,837,738)	(83,933)	(4,921,671)
<b>Total equities</b>		<b>29,400,909</b>		<b>29,400,909</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>31,245,100</b>		<b>31,245,100</b>

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**14. Transition to IFRS (continued)****Reconciliation of Assets , Liabilities and Equity**

	As at September 30, 2010			
	Note	Canadian GAAP	Effect of transition	IFRS
		\$	\$	\$
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		1,189,618		1,189,618
Trade and other receivables		126,280		126,280
Prepayments and deposits		74,229		74,229
Total current assets		1,390,127		1,390,127
Non-current assets				
Exploration advances		159,659		159,659
Property , plant and equipment		138,111		138,111
Mineral exploration properties		28,899,950		28,899,950
Total non-current assets		29,197,720		29,197,720
<b>TOTAL ASSETS</b>		<b>30,587,847</b>		<b>30,587,847</b>
<b>LIABILITIES</b>				
Current liabilities				
Trade and other payables		643,114		643,114
Non-current liabilities				
Deferred income tax liabilities		1,474,235		1,474,235
Total liabilities		2,117,349		2,117,349
<b>SHAREHOLDER'S EQUITY</b>				
Share capital	(I), (II)	27,338,144	4,374,757	31,712,901
Contributed surplus	(I), (II)	7,116,375	(4,290,824)	2,825,551
Retained earnings	(I)	(5,984,021)	(83,933)	(6,067,954)
Total equities		28,470,498		28,470,498
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>30,587,847</b>		<b>30,587,847</b>

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**14. Transition to IFRS (continued)****Reconciliation of Assets , Liabilities and Equity**

	As at December 31, 2010			
	Note	Canadian GAAP	Effect of transition	IFRS
		\$	\$	\$
<b>ASSETS</b>				
Current assets				
Cash and cash equivalents		3,426,370		3,426,370
Trade and other receivables		99,393		99,393
Prepayments and deposits		83,381		83,381
Total current assets		3,609,144		3,609,144
Non-current assets				
Exploration advances		5,677		5,677
Property , plant and equipment		153,562		153,562
Investments in equities		200,000		200,000
Mineral exploration properties		29,125,910		29,125,910
Total non-current assets		29,485,149		29,485,149
<b>TOTAL ASSETS</b>		<b>33,094,293</b>		<b>33,094,293</b>
<b>LIABILITIES</b>				
Current liabilities				
Trade and other payables		275,115		275,115
Other liabilities	(I)	-	27,657	27,657
Non-current liabilities				
Deferred income tax liabilities		968,442	138,397	1,106,839
Total liabilities		1,243,557		1,409,611
<b>SHAREHOLDER'S EQUITY</b>				
Share capital	(I), (II)	32,553,890	2,522,078	35,075,968
Contributed surplus	(I), (II)	5,666,518	(3,470,315)	2,196,203
Retained earnings	(I), (II)	(6,369,672)	782,183	(5,587,489)
Total equities		31,850,736		31,684,682
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>33,094,293</b>		<b>33,094,293</b>

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**14. Transition to IFRS (continued)****Reconciliation of Loss and Comprehensive Loss**

	Quarter ended September 30, 2010		
	Note	Canadian GAAP	Effect of transition IFRS
		\$	\$
Expenses			
Administrative expenses		87,196	87,196
Depreciation		15,443	15,443
Investor relations expenses		83,345	83,345
Listing and filing fees		3,782	3,782
Professional fees		14,960	14,960
Stock-based payments		35,186	35,186
Wages and salaries		161,144	161,144
Loss before other items		(401,056)	(401,056)
Interest and other income		6,194	6,194
Foreign currency translation differences		(534)	(534)
Loss before income taxes		(395,396)	(395,396)
Deferred income tax recovery		-	-
<b>Loss for the year</b>		<b>(395,396)</b>	<b>(395,396)</b>
Other comprehensive loss (income)		-	-
<b>Other Comprehensive income (loss)</b>		<b>-</b>	<b>-</b>
<b>Total Comprehensive income (loss)</b>		<b>(395,396)</b>	<b>(395,396)</b>

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**14. Transition to IFRS (continued)****Reconciliation of Loss and Comprehensive Loss**

	Nine months ended September 30, 2010		
	Note	Canadian GAAP	Effect of transition IFRS
		\$	\$
Expenses			
Administrative expenses		231,757	231,757
Depreciation		46,030	46,030
Investor relations expenses		269,213	269,213
Listing and filing fees		20,317	20,317
Professional fees		38,835	38,835
Stock-based payments		71,372	71,372
Wages and salaries		490,135	490,135
Loss before other items		(1,167,659)	(1,167,659)
Interest and other income		21,760	21,760
Foreign currency translation differences		(384)	(384)
Loss before income taxes		(1,146,283)	(1,146,283)
Deferred income tax recovery		-	-
<b>Loss for the year</b>		<b>(1,146,283)</b>	<b>(1,146,283)</b>
Other comprehensive loss (income)		-	-
<b>Other Comprehensive income (loss)</b>		<b>-</b>	<b>-</b>
<b>Total Comprehensive income (loss)</b>		<b>(1,146,283)</b>	<b>(1,146,283)</b>

