MEGASTAR DEVELOPMENT CORP.

CONDENSED INTERIM FINANCIAL STATEMENTS

THREE MONTHS ENDED MAY 31, 2013

EXPRESSED IN CANADIAN DOLLARS

(Unaudited – Prepared by Management)

NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3) (a), if an auditor has not performed a review of the interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor BDO CANADA LLP has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

July 23, 2013

MEGASTAR DEVELOPMENT CORP.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(EXPRESSED IN CANADIAN DOLLARS)

	Notes		May 31 2013		February 28 2013
ASSETS					
Current assets					
Cash and cash equivalents	4	$	1,154,721	$	1,170,616
Marketable securities	6		24,347		38,050
Taxes recoverable	5		2,930		5,715
Prepaid expenses and deposits			5,799		7,468
Total current assets			1,187,797		1,221,849
Non-current assets					
Equipment	7		1,465		1,584
Exploration and evaluation assets	8		511,005		507,045
Total non-current assets			512,470		508,629
TOTAL ASSETS		$	1,700,267	$	1,730,478
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable, accrued liabilities and other liabilities		$	435,480	$	431,171
Due to related parties	13		18,850		13,850
Total current liabilities			454,330		445,021
Total liabilities			454,330		445,021
Shareholders' equity					
Share capital	9		5,141,178		5,141,178
Reserves	10		208,339		244,669
Accumulated other comprehensive loss	14		(13,703)		-
Deficit			(4,089,877)		(4,100,390)
Total shareholders' equity			1,245,937		1,285,457
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	1,700,267	$	1,730,478

Approved and authorized for issue on behalf of the Board on July 23, 2013

"Dusan Berka" Director
Dusan Berka

"Jonathan Rich " Director
Jonathan Rich

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

MEGASTAR DEVELOPMENT CORP.
CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPEREHENSIVE LOSS
(EXPRESSED IN CANADIAN DOLLARS)

	Notes	Three months ended May 31, 2013	Three months ended May 31, 2012
Expenses			
Accounting and audit fees	13	$ 5,900	$ 3,700
Depreciation		119	143
Consulting fees		-	2,600
Transfer agent and filing fees		1,497	7,753
Insurance		1,669	3,516
Legal fees		688	-
Management fees	13	15,000	25,500
Office, telephone and miscellaneous		831	618
Rent		3,000	6,000
Shareholder information		607	543
Travel		-	3,540
Loss before other income (expenses)		(29,311)	(53,913)
Other income (expenses):			
Interest income		3,494	248
Net loss for the period		(25,817)	(53,665)
Other comprehensive loss			
Unrealized loss on marketable securities	6 & 14	(13,703)	(64,075)
Total comprehensive loss for the period		(39,520)	(117,740)
Weighted average number of common shares outstanding (basic and diluted)		26,009,867	14,935,717
Basic and diluted loss per share		$ (0.001)	$ (0.004)

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

MEGASTAR DEVELOPMENT CORP.
CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN CANADIAN DOLLARS)

	Share Capital		Reserves		Accmulated other comprehensive		
	Number of shares issued	Amount	Warrant reserve	Share based payments reserve	Unrealized marketable securities gain (loss)	Deficit	Total
Balance, February 29, 2012	17,796,716	$ 4,133,551	$ -	$ 225,601	$ (4,300)	$ (3,690,820)	$ 664,032
Comprehensive loss:							
Net loss for the period	-	-	-	-	-	(53,665)	(53,665)
Unrealized loss on marketable securities	-	-	-	-	(64,075)	-	(64,075)
Loss on share distribution	-	-	-	-	-	-	-
Balance, February 29, 2012	17,796,716	4,133,551	-	225,601	(68,375)	(3,744,485)	546,291
Balance, February 28, 2013	28,996,716	5,141,178	52,573	192,096	-	(4,100,390)	1,285,457
Comprehensive loss:							
Net loss for the period	-	-	-	-	-	(25,817)	(25,817)
Unrealized loss on marketable securities	-	-	-	-	(13,703)	-	(13,703)
Fair value of options expired (Note 9 and 10)	-	-	-	(36,330)	-	36,330	-
Balance, February 28, 2013	28,996,716	$ 5,141,178	$ 52,573	$ 155,766	$ (13,703)	$ (4,089,877)	$ 1,245,937

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

MEGASTAR DEVELOPMENT CORP.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(EXPRESSED IN CANADIAN DOLLARS)

	Three months ended	
	May 31, 2013	May 31, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$ (25,817)	$ (53,665)
Adjustments to reconcile loss to net cash used in operating activities:		
Amortization	119	143
Interest income	(3,494)	(248)
	(29,192)	(53,770)
Net changes in non-cash working capital accounts		
Decrease in taxes recoverable	2,786	22,467
Decrease (increase) in prepaid expenses and deposits	1,669	(964)
(Decrease) increase in accounts payable and accrued liabilities	4,308	(25,176)
Cash used in operating activities	(20,429)	(57,443)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	3,494	248
Evaluation and exploration expenditures	(3,960)	(2,302)
Increase in due to related parties	5,000	1,000
Cash provided by (used in) investing activities	4,534	(1,054)
CASH FLOWS FROM FINANCING ACTIVITIES		
Obligation to issue shares	-	560,000
Cash provided by financing activities	-	560,000
Net change in cash	(15,895)	501,503
Cash, beginning balance for the priod	1,170,616	389,758
Cash, ending balance for the period	$ 1,154,721	$ 891,261

Supplemental cash flows information (Note 14)

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

1. NATURE OF OPERATIONS

The Company, incorporated in British Columbia on September 24, 1984, is an exploration stage public Company listed on the TSX Venture Exchange and the Frankfurt Stock Exchange. The Company is assessing its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable reserves and confirmation of the Company's interest in the underlying properties, the ability of the Company to obtain necessary financing to satisfy the expenditure requirements under mineral property agreements and to complete the development of the properties, and upon future profitable production or the sale thereof.

The Company is listed as a Tier 2 mining exploration issuer. The Company operates in a single business segment focusing on mineral exploration in Quebec and British Columbia, Canada. At May 31, 2013, the Company had no revenue producing operations and accumulated deficit of $4,089,877 since its inception. However, the Company has sufficient cash recourses to meet its obligations for at least twelve months from the end of the reporting year. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future.

These financial statements have been prepared with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The operations of the Company were primarily funded by the issuance of share capital. The issuance of additional equity securities by the Company may result in significant dilution to the equity interests of current shareholders. The Company's future capital requirements will depend on many factors, including operating costs, the current capital market environment and global market conditions.

The head office, and principal address of the Company is Suite 1130, 789 West Pender Street, Vancouver, BC Canada V6C 1H2. The Company's registered and records address is at the Corporate Solicitor's office, McMillan LLP, Barristers and Solicitors, 1500 Royal Centre – 1055 W. Georgia Street, Vancouver, BC, V6E 4N7.

2. BASIS OF PRESENTATION

Statement of compliance

The condensed interim financial statements of the Company have been prepared in accordance with IAS 34 Interim Financial Reporting.

The condensed interim financial statements of the Company should be read in conjunction with the Company's 2013 annual financial statements which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The condensed interim financial statements have been prepared using accounting policies consistent with those used in the Company's 2013 annual financial statements except for income tax expense which is recognized and disclosed for the full financial year in the audited financial statements.

Basis of measurement

These financial statements have been prepared on an accruals basis and are based on historical costs, as modified by the revaluation of available for sale financial assets. These financial statements are presented in Canadian dollars, which is also the Company's functional currency, unless otherwise noted.

Approval of the audited financial statements

The financial statements of the Company for the three months ended May 31, 2013, were authorized for issue on July 23, 2013 by the Board of Directors of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting judgments, estimates and assumptions

The Company makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

In the future, actual experience may differ from these estimates and assumptions. The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the year of the change, if the change affects that year only, or in the year of the change and future years, if the change affects both.

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the financial statements within the next financial year are discussed below:

i) Exploration and Evaluation Expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the year the new information becomes available.

ii) Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

iii) Income Taxes

The Company has not recognized a deferred tax asset as management believe it is not probable that taxable profit will be available against which deductible temporary differences can be utilized.

iv) Flow Through Shares Provisions

Flow-through share provisions are comprised of the Company's various tax penalties and indemnification liabilities relating to the deficiencies in incurring on a timely basis the appropriate amount of qualifying exploration expenditures required related to past flow-through share issuances. The Company may also be required to indemnify the holders of such shares for any tax and other costs payable by them in the event the Company has not made required exploration expenditures.

Flow-through share provisions have been created based on the Company's internal estimates of the maximum tax penalties and indemnification liabilities the Company could be subject to. Assumptions, based on the current tax regulations, have been made which management believes are a reasonable basis upon which to estimate the future potential liability. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. The final cost of the flow-through share provision may be lower than currently provided for.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Significant accounting judgments, estimates and assumptions (cont'd...)

v) Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the stock option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 9.

Accounting standards, amendments and interpretations not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") during the year. None of these are expected to have a significant effect on the financial statements. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

Amended standard IAS 1 Presentation of Financial Statements - These amendments require components of other comprehensive income (OCI) to be separately presented between those that may be reclassified to income and those that will not. These amendments are effective for annual periods beginning on or after July 1, 2012.

IFRS 7 Financial Instruments: Disclosures - Offsetting of Financial Assets and Liabilities - These amendments are applicable for annual reporting periods beginning on or after January 1, 2013 and requires an entity to disclose information to enable users of its financial statements to evaluate the effect or potential effect of netting arrangements on the entity's financial position.

IFRS 9 Financial Instruments – IFRS 9 is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". This new standard is effective for annual periods beginning on or after January 1, 2015. The Company is currently assessing the impact that this standard will have on the financial statements.

IFRS 11 *Joint Arrangements* - IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-monetary Contributions by Venturers*. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on March 1, 2013.

IFRS 13 *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on March 1, 2013.

Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27 Separate Financial Statements, IAS 28 Investments in Associates and Joint Ventures and IAS 32 Financial Instruments: Presentation. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13. IAS 32 amendment provides clarification on the application of offsetting rules.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Accounting standards, amendments and interpretations not yet effective (cont'd...)

IAS 27 and IAS 28 are applicable to annual reporting periods beginning on or after January 1, 2013. IAS 32 is applicable to annual reporting periods beginning on or after January 1, 2014.

The Company does not expect that the new and amended standards will have significant impact on its financial statements.

4. CASH AND CASH EQUIVALENTS

	May 31, 2013	February 28, 2013
Cash at bank	$ 93,116	$ 108,102
Term deposits	1,061,605	1,062,514
Cash and cash equivalents	$ 1,154,721	$ 1,170,616

The term deposits of $1,061,605 earn annual interest rates between 0.75% and 1.40%, and their terms are within 90 days.

5. TAXES RECOVERABLE

	May 31, 2013	February 28, 2013
HST receivable	$ 2,039	$ 4,824
QST recoverable	891	891
	$ 2,930	$ 5,715

6. MARKETABLE SECURITIES

	May 31, 2013		February 28, 2013	
	Fair Value	Cost	Fair Value	Cost
Canada Zinc Metals Corp.	$ 16,150	$ 104,975	$ 23,800	$ 104,975
Eloro Resources Ltd.	5,625	116,260	11,250	116,260
Rio Grande Mining Corp.	2,572	74,500	3,000	74,500
	$ 24,347	$ 295,735	$ 38,050	$ 295,735

Pursuant to an option agreement on the Company's interest in the Sedex Zinc Property in BC with Canada Zinc Metals Corp. (previously Mantle Resources Inc.), the Company received 100,000 shares of Canada Zinc Metals Corp. as partial consideration for Canada Zinc Metals Corp. earning up to 60% interest in the Sedex Zinc Property in BC. The agreement was mutually terminated after February 28, 2008.

Pursuant to an option agreement on the Company's interest in the Simkar Property in Quebec with Eloro Resources Ltd., the Company received 187,500 shares of Eloro Resources Ltd. to earn up to 50% interest in the Simkar Property in Quebec.

An additional 187,500 shares was received from Eloro Resources Ltd. during the year ended February 28, 2011. On August 12, 2011, the shares of Eloro Resources Ltd. were rolled back 4:1. The number of shares of Eloro received reflects the 4:1 rollback.

6. MARKETABLE SECURITIES (cont'd...)

Pursuant to an option agreement on the Company's interest in the Sedex Zinc Property in BC with Rio Grande Mining Corp., the Company received 100,000 shares of Rio Grande Mining Corp. as partial consideration for Rio Grande Mining Corp. earning up to 60% interest in the Sedex Zinc Property in BC. An additional 50,000 shares was received from Rio Grande Mining Corp. and then all shares were split on the basis of one old share for two new shares in the year 2011.

As of May 31, 2013, the fair market value of the marketable securities was $24,346 (February 29, 2013 - $38,050): Canada Zinc Metals Corp. $0.19 per share (February 28, 2013 - $0.28); Eloro Resources Ltd. $0.015 per share (February 28, 2013 - $0.03); Rio Grande Mining Corp. $0.06 per share (February 28, 2013 - $0.01) based on the closing bid price of shares on the TSX Venture Exchange.

During the year ended February 28, 2013, the company recorded $122,575 (February 28, 2013 - $80,625) as a loss on impairment of marketable securities, designated as available for sale financial instruments in accordance with IAS33, on the basis that these were considered to have suffered a significant or prolonged decline in value as at that date.

During the three months ended May 31, 2013, the Company recorded $13,703 as an unrealized loss (February 28, 2013 – $64,075) to the market values. The unrealized loss of marketable securities is reflected in other comprehensive loss during the reporting period.

7. EQUIPMENT

		Office equipment
Cost:		
At February 28, 2013	$	3,439
Additions		-
At May 31, 2013	$	3,439
Depreciation:		
At February 28, 2013		1,855
Charges for the period		119
At May 31, 2013		1,974
Net book value:		
At February 28, 2013		1,584
At May 31, 2013	$	1,465

		Office equipment
Cost:		
At February 29, 2012	$	3,439
Additions		-
At February 28, 2013	$	3,439
Depreciation:		
At February 29, 2012		1,176
Charges for the year		679
At February 28, 2013		1,855
Net book value:		
At February 29, 2012		2,263
At February 28, 2013	$	1,584

8. EXPLORATION AND EVALUATION ASSETS

The Company has capitalized the following acquisition and exploration costs on its mineral properties.

	Sedex Zinc Property British Columbia, Canada	Ralleau Project Quebec, Canada	Total
Total acquisition costs	$ 235,000	$ 96,543	$331,543
Total exploration advance	(183,500)	-	(183,500)
Total cost recovery	(112,000)	(101,120)	(213,120)
Total deferred exploration costs	105,857	555,712	661,569
Total cumulative impairment charge	(45,356)	(44,091)	(89,447)
Balance,February 28, 2013	1	507,044	507,045
Exploration costs			
Claim renew	-	3,960	3,960
Deferred exploration costs	-	3,960	3,960
Balance of costs			
Total acquisition costs	235,000	96,543	331,543
Total exploration advance	(183,500)	-	(183,500)
Total cost recovery	(112,000)	(101,120)	(213,120)
Total deferred exploration costs	105,857	559,672	665,529
Total cumulative impairment charge	(45,356)	(44,091)	(89,447)
Balance, May 31, 2013	$ 1	$ 511,004	$511,005

8. EXPLORATION AND EVALUATION ASSETS (cont'd...)

	Sedex Zinc Property British Columbia, Canada	Ralleau Project Quebec, Canada	Total
Total acquisition costs	$ 235,000	$ 96,543	$ 331,543
Total exploration advance	(183,500)	-	(183,500)
Total cost recovery	(112,000)	(101,120)	(213,120)
Total deferred exploration costs	83,135	568,506	651,641
Balance, February 29, 2012	22,635	563,929	586,564
Exploration costs:			
Reports and field	-	358	358
Cost recovery	-	(13,152)	(13,152)
Taxes and assessment fees	22,722	-	22,722
Deferred exploration costs	22,722	(12,794)	9,928
Impairment charge	(45,356)	(44,091)	(89,447)
Total acquisition costs	235,000	96,543	331,543
Total exploration advance	(183,500)	-	(183,500)
Total cost recovery	(112,000)	(101,120)	(213,120)
Total deferred exploration costs	105,857	555,712	661,569
Total cumulative impairment charge	(45,356)	(44,091)	(89,447)
Balance, February 28, 2013	$ 1	$ 507,044	$ 507,045

a) Ralleau Project, Quebec, Canada

The Company has a 100% interest in 220 mineral claims situated in the Quevillon area of Quebec that are subject to a 2% net smelter royalty return of which 1% can be purchased by the Company at any time for $1,000,000.

An impairment charge of $44,091 has been recognized as at February 28, 2013 representing 17 out of the 220 claims which management intend to let expire during the year to February 28, 2014.

b) Sedex Zinc Property, British Columbia, Canada

At February 28, 2013, the Company had a 100% interest in 9 mineral claims located in the Omineca Mining Division, BC.

Pursuant to an agreement dated November 5, 2008 and amended January 19, 2012, the Company granted an option to Rio Grande Mining Corp. ("Rio Grande") whereby Rio Grande could earn up to a 60% interest in the claims.

For Rio Grande Mining Corp to earn a 60% interest in the Sedex claims, it must pay to the Company cash of $89,055, issue 200,000 common shares to the Company and incur $800,000 in exploration expenditures as follows:

- Pay $10,000 to the Company (received) within 10 days of execution of the letter of intent;
- Incur minimum exploration expenditures of $100,000 on or before January 31, 2009 (not incurred);
- Pay $17,500 to the Company (received) and 50,000 pre-split common shares (received) which were valued at their fair value of $22,500, on or before the earlier of (i) 7 days after the listing date, or (ii) May 31, 2010;

8. EXPLORATION AND EVALUATION ASSETS (cont'd...)

b) Sedex Zinc Property, British Columbia, Canada (cont'd...)

- Pay $20,000 to the Company (received) and 50,000 pre-split common shares (received) which were valued at their fair market value of $12,000, incur minimum exploration expenditures of $200,000 on or before the earlier of (i) 12 months after the listing date, or (ii) July 31, 2010 (not incurred);
- Pay $16,555 to the Company (received) on June 1, 2011;
- Issue 100,000 post-split common shares (received) which were valued at their fair market value of $40,000 within five days of full execution of the Amending Letter Agreement dated January 19, 2012;
- Pay $25,000 (outstanding) to the Company and incur minimum exploration expenditures of $500,000 on or before January 31, 2013 (not incurred).

On July 19, 2012, the Option Agreement with Rio Grande was terminated by mutual consent. Subject to Exchange approval, Rio Grande has agreed to issue 250,000 treasury shares to the Company (outstanding) as compensation for all outstanding out of pocket expense amounting to $25,000 in connection with keeping the property current and in good standing.

On September 30, 2011, the Company received $10,000 from Goldeneye Resources Corp. (formerly "Barranco Resources Corp.") as a non-refundable advance payment for granting a right of first refusal in connection with a possible option agreement for SEDEX property. Goldeneye Resources Corp. has chosen not to pursue an option interest in the SEDEX property.

On August 2, 2012, the Company entered into a letter of intent with Yuntone Capital Corp. ("Yuntone"). The Company granted an option to Yuntone to purchase up to an undivided 60% interest in Sedex claims. For Yuntone to earn a 60% interest in the Sedex claims, it had to pay to the Company cash of $50,000 (received $25,000), issue 250,000 common shares, and incur $500,000 in exploration expenditures. On October 9, 2012, the letter of intent was terminated by mutual consent and shall have no further force or effect. The Company returned the payment of $25,000 to Yuntone on October 9, 2012.

The Company abandoned 8 mineral claims during the year ended February 29, 2012, and abandoned 16 mineral claims during the year ended February 28, 2013, leaving the Company with a 100% interest in 9 mineral claims, totaling 3,302 hectares. Pursuant to the forfeiture of claims and management's assessment of impairment, management recorded an impairment charge of $45,356 against the property during the year ended February 28, 2013.

9. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

Issuance of share capital

There is no share capital transactions during the three months ended May 31, 2013.

During the year ended February 28, 2013,

a) On June 5, 2012, the Company closed a non-brokered private placement of 11,000,000 units at a price of $0.10 per unit for gross proceeds of $1,100,000. These 11,000,000 units were issued as non-flow through units consisting of one common share and one transferrable share purchase warrant. The share purchase warrant entitles the holder to purchase one additional common share at a price of $0.135 per share for a period of 24 months.

9. SHARE CAPITAL (cont'd...)

During the year ended February 28, 2013 (cont'd...)

The Company paid a total of $74,250 in finder's fees and issued a total of 742,500 share purchase warrants to such finder. Each finder's warrant is exercisable into one common share of the Company for two years at a price of $0.135 per share. The fair value of share warrants granted on June 5, 2012 was estimated at the grant date using the Black – Scholes option pricing model with estimated volatility of 139.02%, risk free rate of 1.00%, annual rate of dividends of zero and expected life of 2 years. With these assumptions, the fair value of options was determined to be $52,574 which has been expensed with a corresponding credit to warrant reserve. The share price factored into the Black –Scholes model was $0.11 per share. The Company used the historical volatilities of its own share prices to estimate the volatility of the share price.

b) During the year ended February 28, 2013, 200,000 share options were exercised at $0.10 per share with proceeds of $20,000.

At May 31, 2013, there were 28,996,716 (February 29, 2013 – 28,996,716) issued and fully paid common shares.

Share Options

The Company adopted a share option plan (the "Share Option Plan") under which it may grant options to employees, officers, directors, consultants for up to 10% of the issued and outstanding common shares. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee in a twelve-month period is limited to 5% of the issued shares of the Company. Under the plan, the exercise price of an option may not be less than the discounted market price. The options can be granted for a maximum term of 5 years and vest at the discretion of the board of directors.

For share options granted to employees, directors, and consultants, the Company recognizes as an expense, the estimated fair value of the share options granted. The fair value of each share option granted was estimated on the date of grant using the Black-Scholes option-pricing model.

During the three months ended May 31, 2013,

On March 4, 2013, 93,750 options exercisable at $0.52 expired unexercised.

During the year ended February 28, 2013,

On August 1, 2012, the Company granted its consultant options to purchase 300,000 common shares at a price of $0.10 per share for a period of two years. The fair value of share options granted On August 1, 2012 was estimated at the grant date using the Black – Scholes option pricing model with estimated volatility of 138.41%, risk free rate of 1.15%, annual rate of dividends of zero and expected life of 2 years. With these assumptions, the fair value of options was determined to be $12,929 which has been expensed with a corresponding credit to share-based payment reserve. The share price factored into the Black –Scholes model was $0.07 per share. The Company used the historical volatilities of its own share prices to estimate the volatility of the share price. Typically share-based payments are calculated using the fair value of the goods or services received. As no reasonable fair value could be determined for the services provided by the consultant, the Black-Scholes option pricing model was used to determine the fair value.

9. SHARE CAPITAL (cont'd...)

Share options (cont'd...)

On August 22, 2012, the Company granted its CFO options to purchase 125,000 common shares at a price of $0.10 per share for a period of two years. The fair value of share options granted on August 22, 2012 was estimated at the grant date using the Black – Scholes option pricing model with estimated volatility of 138.41%, risk free rate of 1.15%, annual rate of dividends of zero and expected life of 2 years. With these assumptions, the fair value of options was determined to be $5,387 which has been expensed with a corresponding credit to share-based payment reserve. The share price factored into the Black –Scholes model was $0.07 per share. The Company used the historical volatilities of its own share prices to estimate the volatility of the share price.

On January 29, 2013, the Company granted its directors options to purchase 600,000 common shares at a price of $0.10 per share for a period of three years. The fair value of share options granted on January 29, 2013 was estimated at the grant date using the Black – Scholes option pricing model with estimated volatility of 124.03%, risk free rate of 1.25%, annual rate of dividends of zero and expected life of 3 years. With these assumptions, the fair value of options was determined to be $43,350 which has been expensed with a corresponding credit to share-based payment reserve. The share price factored into the Black –Scholes model was $0.10 per share. The Company used the historical volatilities of its own share prices to estimate the volatility of the share price.

During the year ended February 28, 2013, 462,500 options expired.

On January 30, 2013, 200,000 share options were exercised at $0.10 per share. The quoted market price of the Company's shares on the date of exercise was $0.10.

A summary of share options outstanding as at May 31, 2013 is as follows:

	Granted date	Number of Options	Weighted Average Exercise Price $	Weighted Average Number of Years to Expiry
Balance, February 29, 2012		1,206,250	0.28	3.89
Options granted	August 1, 2012	300,000	0.10	
Options granted	August 22, 2012	125,000	0.10	
Options granted	January 29, 2016	600,000	0.10	
Options exercised		(200,000)	0.10	
Options expired		(400,000)	0.25	
Options expired		(62,500)	0.40	
Balance, February 28, 2013		1,568,750	0.19	2.54
Options expired		(93,750)	0.52	
Balance, May 31, 2013		1,475,000	0.16	2.35

As at May 31, 2013, the following incentive share options are outstanding and exercisable:

Number of Options	Exercise Price	Expiry Date
650,000	0.25	July 22, 2016
300,000	0.10	August 1, 2014
125,000	0.10	August 22, 2014
400,000	0.10	January 29, 2016
1,475,000		

9. SHARE CAPITAL (cont'd...)

Warrants

On May 3, 2013, the Company received approval from TSX Venture Exchange to extend the terms of certain warrants previously issued. The private placements, which these warrants relate to, closed on July 20, 2011 and June 1, 2012, respectively. These warrants initially had expiry dates of July 20, 2013 and June 1, 2014 and were extended for a period of two years and now expire on July 20, 2015 and June 1, 2016 respectively. All other terms of the warrants remain the same.

A summary of changes in warrants outstanding as at May 31, 2013 is as follows:

	Warrants Outstanding	Weighted average Exercise price -$-	Weighted Average number of years to expiry
Balance, February 29, 2012	7,039,909	0.135	1.39
Warrants granted with private placement	11,000,000	0.135	
Finders fee warrants	742,500	0.135	
Balance, February 28, 2013 and May 31, 2013	18,782,409	0.135	2.55

Details of warrants outstanding as at May 31, 2013 are as follows:

Number of Warrants	Exercise Price - $ -	Expiry Date	
6,602,765	0.135	July 20, 2015	
437,144	0.135	July 20, 2013	* Expired subsequently
11,000,000	0.135	June 1, 2016	
742,500	0.135	June 1, 2014	
18,782,409			

10. RESERVES

Share-based payment reserve

The share-based payment reserve records share options recognized as share-based payments expense until such time that the share options are exercised, at which time the corresponding amount will be transferred to share capital. Upon cancellation or forfeiture, the amount is transferred to deficit.

Balance, February 29, 2012	$ 225,601
Share based payments - granted August 1, 2012	12,929
Share based payments - granted August 22, 2012	5,387
Share based payments - granted January 29, 2013	43,350
Share option exercised	(14,450)
Share option expired	(80,721)
Balance, February 28, 2013	$ 192,096
Share option expired	(36,330)
Balance, May 31, 2013	$ 155,766

10. RESERVES

Warrant reserve

The fair value of the common shares issued in the private placement 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 warrant reserve. If the warrants are exercised, the related amount is reclassified as share capital. If the warrants expire unexercised, the related amount remains in warrant reserve.

Balance, February 28, 2011 and February 29, 2012	$	-
Agent warrants granted - June 1, 2012		52,573
Balance, February 28, 2013 and May 31, 2013	$	52,573

11. CAPITAL DISCLOSURE

The Company considers its capital structure to include net residual equity of all assets, less liabilities. Capital is comprised of the Company's shareholders' equity and any debt that it may issue. The Company's objectives when managing capital are to (i) maintain sufficient working capital to meet current financial obligations and continue as a going concern; (ii) maintain a capital structure to allow the Company to raise equity funding to finance its capital expenditures and acquisition activities; (iii) maintain creditworthiness and maximize returns for shareholders over the long term.

The Company manages its capital structure and makes adjustments to it in light of changes in economic circumstances. The capital was mostly from proceeds from the issuance of common shares. The net proceeds raised will be used to fund the Company's working capital and exploration activities.

The Company is not subject to externally imposed capital restrictions nor were there any changes to the Company's capital management provisions during the year.

12. FINANCIAL INSTRUMENTS AND RISKS

Fair values

Per IFRS 7, a three-level hierarchy that reflects the significance of inputs used in making fair value adjustments is required. The three levels of fair value hierarchy are as follows:

a) Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
b) Level 2 – Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
c) Level 3 – Input for assets or liabilities that are not based on observable market data.

Financial Instrument Risks

The following table outlines the Company's financial assets and liabilities measured at fair value by level with the fair value hierarchy described above. Assets and liabilities are classified in entirety based on the lowest level of input that is significant to the fair measurement.

12. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)

Financial Instrument Risks (cont'd...)

As at May 31, 2013		
Assets		
Marketable securities		24,347
Total	$	24,347

As at February 28, 2013		
Assets		
Marketable secuirites		38,050
Total	$	38,050

The Company's marketable securities are valued using quoted market prices in active markets, and therefore are classified as Level 1.

The Company's financial instruments are exposed to certain financial risks, including credit risk, interest rate risk, market risk, liquidity risk and currency risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a counter party to a financial instrument fails to meet its contractual obligation. The Company's exposure to credit risk includes cash, cash equivalents and receivables. The Company reduces its credit risk by maintaining its bank accounts at large international financial institutions.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments. As at May 31, 2013, the Company had working capital of $733,467 (February 29, 2013 - $776,828). The payment terms for accounts payable and accrued liabilities from vendors are generally 30 days or due on receipt.

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices. The Company's marketable securities bear market price risk. The maximum exposure to this risk is equal to the carrying value of the investment.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates. The Company has no significant interest rate risk. As of May 31, 2013, the Company had cash and cash equivalents balance of $1,154,721 of which $1,061,605 were in term deposits earning interest at rates between 0.75% and 1.40% per annum. The Company had no interest-bearing debt.

12. FINANCIAL INSTRUMENTS AND RISKS (cont'd...)

Financial Instrument Risks (cont'd...)

Foreign currency risk

The Company does not have any assets or liabilities in a foreign currency and therefore is not exposed to foreign currency risk.

13. RELATED PARTY TRANSACTIONS

The amounts due to related parties are amounts due to directors and officers. The balances are unsecured, non-interest bearing and have no specific terms for repayment. Accordingly, the fair value cannot readily be determined. These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

As at May 31, 2013, $18,850 (February 29, 2013 - $13,850) was due to directors and officers of the Company for accrued management fees.

Due to related parties:

	May 31, 2013	February 28, 2013
	- $ -	- $ -
Company controlled by CEO	3,000	-
Company controlled by CFO	7,000	5,000
Director	6,000	6,000
Directors (former)	2,850	2,850
	18,850	13,850

During the three months ended May 31, 2013 and May 31, 2012, the Company entered into the following transactions with related parties:

	Three months ended	
	May 31, 2013	May 31, 2012
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors and a former directors:		
Management and directors fees	15,000	25,500
Professional fees	2,000	-
	$ 17,000	$ 25,500

Management compensation consisted of the following:

	Three months ended	
	May 31, 2013	May 31, 2012
	- $ -	- $ -
Company controlled by CEO	9,000	18,000
Company controlled by CFO	6,000	7,500
	15,000	25,500

14. SUPPLEMENTAL CASH FLOW INFORMATION

During the three months ended May 31, 2013, the Company recognized unrealized losses on marketable securities of $13,703. The Company reclassified the fair value on expired unexercised share options of $36,330 to retained earnings.

During the three months ended May 31, 2012, the Company recognized unrealized losses on marketable securities of $64,075, and included $3,367 accounts payable in mineral property evaluation and exploration.

15. COMMITMENTS AND CONTINGENCIES

As at May 31, 2013, the Company has consulting and management agreements that can be terminated by the Company by giving 30 days notice. The aggregate amount of these agreements is $5,000 monthly. The Company entered into a revised management agreement with a company controlled by the CEO of the Company dated April 23, 2013. During the term, the Company shall pay a management fee of $3,000 per month, plus applicable taxes. The effective date of the revised agreement was Jan 1, 2013. The management agreement with the company controlled by the CEO contains a 30 days termination clause.

The Company entered into a revised management agreement with a company controlled by the CFO of the Company dated April 23, 2013. During the term, the Company shall pay a management fee of $2,000 per month, plus applicable taxes. The effective date of the revised agreement was March 1, 2013. The management agreement with the company controlled by the CFO contains a 30 days termination clause.

The Company is in arrears on filing certain of its statutory tax forms. The Company has exposure to late filing penalties and related interest, amounting to $133,878. The Company may also be required to indemnify flow-through investors for the amount of increased tax payable by the flow-through investor as a consequence of the failure of the Company to incur qualifying exploration expenditures previously renounced to the flow-through investors. Previously renounced and unspent exploration amounts of $335,466 relating to the 2006 flow-through shares offering may be subject to such indemnification. The Company estimates that the total potential liability is $190,297 as at February 29, 2013 and has included a provision for this amount together with the interest and penalty accruals in other liabilities. The total amount of $409,217 included within other liabilities includes taxes payable of $85,042, penalties of $100,824, shareholder indemnity liability of $190,297, and total interest of $33,054. The outcome of the amount of actual claims, if any, is contingent on future assessments to the investors.

16. SEGMENTED INFORMATION

The Company currently operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties in British Columbia and Quebec, Canada. All of the Company's assets and expenditures are located in Canada.

17. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the three months ended May 31, 2013, 437,144 warrants exercisable at $0.135 per share expired unexercised.