MEGASTAR DEVELOPMENT CORP.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED FEBRUARY 28, 2013

EXPRESSED IN CANADIAN DOLLARS

BDO

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Independent Auditor's Report

To the Shareholders of Megastar Development Corp.

We have audited the accompanying financial statements of Megastar Development Corp., which comprise the statements of financial position as at February 28, 2013 and February 29, 2012 and the statements of operations and comprehensive loss, changes in equity, and cash flows for the years ended February 28, 2013 and February 29, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Megastar Development Corp. as at February 28, 2013 and February 29, 2012 and its financial performance and its cash flows for the years ended February 28, 2013 and February 29, 2012 in accordance with International Financial Reporting Standards.

(signed) "BDO CANADA LLP"

Chartered Accountants

Vancouver, British Columbia
June 27, 2013

	Notes		2013		2012		2011
ASSETS							
Current assets							
Cash and cash equivalents	4	$	1,170,616	$	389,758	$	120,689
Marketable securities	6		38,050		156,325		290,200
Other securities			-		-		6,300,000
Taxes recoverable	5		5,715		29,630		34,625
Prepaid expenses and deposits			7,468		6,067		6,842
Total current assets			1,221,849		581,780		6,752,356
Non-current assets							
Equipment	7		1,584		2,263		2,199
Exploration and evaluation assets	8		507,045		586,564		700,686
Total non-current assets			508,629		588,827		702,885
TOTAL ASSETS		$	1,730,478	$	1,170,607	$	7,455,241
LIABILITIES AND SHAREHOLDERS' EQUITY							
Current liabilities							
Accounts payable, accrued liabilities and other liabilities	16	$	431,171	$	490,725	$	518,826
Share capital distribution payable			-		-		6,300,000
Due to related parties	13		13,850		15,850		54,850
Total current liabilities			445,021		506,575		6,873,676
Long-term liability							
Deferred income tax liability			-		-		123,000
Total liabilities			445,021		506,575		6,996,676
Shareholders' equity							
Share capital	9		5,141,178		4,133,551		9,046,836
Share capital distribution			-		-		(6,300,000)
Reserves	10		244,669		225,601		122,713
Accumulated other comprehensive loss	14		-		(4,300)		88,950
Deficit			(4,100,390)		(3,690,820)		(2,499,934)
Total shareholders' equity			1,285,457		664,032		458,565
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	1,730,478	$	1,170,607	$	7,455,241

Approved and authorized for issue on behalf of the Board on July 3, 2013

"Dusan Berka" Director — *"Jonathan Rich "* Director

Dusan Berka — Jonathan Rich

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

MEGASTAR DEVELOPMENT CORP.

STATEMENTS OF OPERATIONS AND COMPEREHENSIVE LOSS

(EXPRESSED IN CANADIAN DOLLARS)

			Years Ended		
					Restated
	Notes		February 28, 2013		February 29, 2012
Expenses					
Accounting and audit fees	13	$	32,542	$	69,676
Depreciation			679		787
Bank charges and interest			407		1,883
Consulting fees			36,400		63,000
Filing fees			16,731		14,472
Insurance			9,654		14,120
Investor relations and promotion			1,391		106
Legal fees			4,888		42,566
Management fees	13		96,000		156,500
Office, telephone and miscellaneous			89		8,068
Rent	13		22,000		16,500
Shareholder information			3,776		6,552
Share-based payments	10 & 13		61,666		175,350
Transfer agent fees			4,462		10,318
Travel			6,551		14,667
Loss before other income (expenses)			(297,236)		(594,565)
Other income (expenses):					
Loss on share distribution			-		(700,000)
Impairment on exploration and evaluation assets			(89,447)		-
Loss on impairment of marketable securities	6 & 14		(122,575)		(80,625)
Gain on sale of mineral properties			10,000		-
Interest and penalties			-		(11,445)
Interest income			8,967		287
Loss before income taxes			(490,291)		(1,386,348)
Income tax recovery			-		123,000
Net loss for the year after tax			(490,291)		(1,263,348)
Other comprehensive loss					
Unrealized loss on marketable securities	6 & 14		(2,000)		(93,250)
Total comprehensive loss for the year			(492,291)		(1,356,598)
Weighted average number of common shares outstanding (basic and diluted)			26,009,867		14,935,717
Basic and diluted loss per share		$	(0.02)	$	(0.08)

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

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

						Accmulated other comprehensive		
	Share Capital			Reserves				
	Number of shares issued	Amount	Share capital distribution	Warrant reserve	Share based payments reserve	Unrealized marketable securities gain (loss)	Deficit	Total
Balance, February 28, 2011	10,531,807	$ 9,046,836	$ (6,300,000)	$ -	$ 122,713	$ 88,950	$ (2,499,934)	$ 458,565
Comprehensive loss:								
Restated net loss for the year	-	-	-	-	-	-	(1,263,348)	(1,263,348)
Restated unrealized loss on marketable securities	-	-	-	-	-	(93,250)	-	(93,250)
Loss on share distribution	-	-	700,000	-	-	-	-	700,000
Shares issued for cash - private placements (Note 9)	6,715,265	671,527	-	-	-	-	-	671,527
Shares issued for finders' fee	437,144	43,714	-	-	-	-	-	43,714
Share issuance costs	-	(43,714)	-	-	-	-	-	(43,714)
Share-based payments	-	-	-	-	175,350	-	-	175,350
Options forfeited/expired (Note 9 and 10)	-	-	-	-	(72,462)	-	72,462	-
Share Capital Distribution	-	(5,600,000)	5,600,000	-	-	-	-	-
Warrants excercised	112,500	15,188	-	-	-	-	-	15,188
Restated balance, February 29, 2012	17,796,716	4,133,551	-	-	225,601	(4,300)	(3,690,820)	664,031
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 year	-	-	-	-	-	-	(490,291)	(490,291)
Unrealized loss on marketable securities	-	-	-	-	-	(2,000)	-	(2,000)
Realization of losses included in accumulated other comprehensive income	-	-	-	-	-	6,300	-	6,300
Shares issued for cash - private placements (Note 9)	11,000,000	1,100,000	-	-	-	-	-	1,100,000
Options exercised (Note 9 and 10)	200,000	20,000	-	-	-	-	-	20,000
Fair value of options exercised (Note 9 and 10)	-	14,450	-	-	(14,450)	-	-	-
Fair value of options expired (Note 9 and 10)	-	-	-	-	(80,721)	-	80,721	-
Fair value of warrants granted (Note 9 and 10)	-	(52,573)	-	52,573	-	-	-	-
Fair value of options granted (Note 9 and 10)	-	-	-	-	61,666	-	-	61,666
Share issuance costs	-	(74,250)	-	-	-	-	-	(74,250)
Balance, February 28, 2013	28,996,716	$ 5,141,178	$ -	$ 52,573	$ 192,096	$ -	$ (4,100,390)	$ 1,285,457

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

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

	Years Ended February 28, 2013	Restated February 29, 2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$ (490,291)	$ (1,263,348)
Adjustments to reconcile loss to net cash used in operating activities:		
Amortization	679	787
Gain on sale of mineral properties	(10,000)	-
Income tax recovery	-	(123,000)
Interest income	(8,967)	(287)
Loss on share capital distribution	-	700,000
Impairment on exploration and evaluation assets	89,447	-
Loss on impairment of marketable securities	122,575	80,625
Share-based payments	61,666	175,350
	(234,891)	(429,873)
Net changes in non-cash working capital accounts		
Decrease in taxes recoverable	23,915	4,995
Decrease (increase) in prepaid expenses and deposits	(1,401)	775
Decrease in accounts payable and accrued liabilities	(58,551)	(28,101)
Decrease in due to related parties	(2,000)	(39,000)
Cash used in operating activities	(272,928)	(491,204)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	8,967	287
Purchase of equipment	-	(851)
Evaluation and exploration expenditures	(931)	(26,998)
Evaluation and exploration expenditures recovered	-	101,120
Cash provided by investing activities	8,036	73,558
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares	1,120,000	686,715
Share issuance costs	(74,250)	-
Cash provided by financing activities	1,045,750	686,715
Net change in cash	780,858	269,069
Cash, beginning balance for the year	389,758	120,689
Cash, ending balance for the year	$ 1,170,616	$ 389,758

Supplemental cash flows information (Note 15)

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 February 28, 2013, the Company had no revenue producing operations and accumulated deficit of $4,100,390 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 financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

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 year ended February 28, 2013, were authorized for issue on July 3, 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...)

iv) 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.

Significant accounting policies

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits held at call with banks, and short-term highly liquid investments with original maturities of three months or less.

Property and equipment

Recognition and measurement

On initial recognition, property and equipment is valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property and equipment is subsequently measured at cost less accumulated amortization, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

The cost of replacing part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

Gains and losses

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

Depreciation

Equipment is recorded at cost less accumulated depreciation. As at February 28, 2013, depreciation is calculated on a declining balance basis at 30% per annum for office equipment. One half the normal depreciations are taken in the year of acquisition.

Depreciation is recognized in profit or loss. Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

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

Income taxes

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.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Share capital

Equity instruments are contracts that give a residual interest in the net assets of the Company. 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 options, share warrants and flow-through shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or warrants are shown in equity as a deduction, net of tax, from the proceeds.

Flow-through shares

The Company may from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company allocates the flow-through share into 1) share capital based on the fair value of the Company's shares at the date of announcement , and 2) a flow-through share premium, equal to the estimated premium, if any, which is recognized as a liability. Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced (or expected to be renounced) to the shareholders. The premium is recognized as deferred tax recovery and the related deferred tax liability is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares must be used only for Canadian resource property exploration expenditures within a two-year period.

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.

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

Earnings/Loss per share

Loss per share is calculated on the basis of the weighted average number of common shares outstanding during the period. The Company follows the treasury share method to calculate the dilutive effect of options, warrants and similar instruments. Under this method, the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. Existing share options and share purchase warrants have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted loss per share is the same for the periods presented.

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 except where these are issued to consultants directly involved in the sourcing of finance in which case they are measured at the fair value of the equity instruments granted. Options or warrants granted 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.

All equity-settled share-based payments are reflected in share based payments reserve, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in share based payment reserve 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.

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

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 most 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 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 are issued as share issuance costs, the fair value will be recorded as warrant reserve using the Black-Scholes option pricing model. 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.

Exploration and Evaluation Assets

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

Costs incurred to acquire the legal right to explore a property are capitalized. Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized on a property-by-property basis. These direct expenditures include such costs as surveying costs, drilling costs, labor and contractor costs, materials used and licensing and permit fees.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined the property is considered to be under development and is classified as development properties. The carrying value of exploration and evaluation assets is transferred to development properties after being tested for impairment.

Once commercial production has commenced all capitalized costs related to the property are transferred to producing properties and the costs of acquisition, exploration and development will be written off over the life of the property based on estimated economic reserves. Proceeds received from the sale of any interest in a property will be credited against the carrying value of the property, with any excess included in other income for the period. If a property is abandoned, the acquisition, deferred exploration and development costs will be written off to other expenses.

Currently, all mineral properties of the Company are at exploration stage.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or inadvertent non-compliance with regulatory requirements.

Management reviews capitalized costs on its mineral properties when facts and circumstances suggest that the carrying amount of an asset may exceed its recorded amount. If the recorded amount is higher than the asset's fair value less cost to sell, management will recognize impairment in value based upon current exploration results and upon management's assessment of the future probability of profitable revenues from the property or sale of the property.

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

Exploration and Evaluation Assets (cont'd...)

Exploration costs renounced due to flow-through share subscription agreements remain capitalized; however, for corporate income tax purpose the Company has no right to claim these costs as tax deductible expenses.

Recorded costs of mineral properties and deferred exploration costs are not intended to reflect present or future values of resource properties. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that changes in future conditions could require a material change in the recognized amount.

Payments on mineral property option agreements are made at the discretion of the Company and, accordingly, are recorded as incurred.

Mining tax credits

Mining tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mining tax credits are earned in respect to exploration costs incurred in Quebec, Canada and are recorded as a reduction of the related deferred exploration expenditures.

Impairment of assets

The carrying amount of intangible assets with indefinite useful economic lives is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income, except to the extent they reverse gains previously recognized in accumulated other comprehensive income (loss).

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Financial instruments

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

Financial assets at fair value through profit or loss ("FVTPL")

Financial assets and financial liabilities classified as FVTPL are acquired or incurred principally for the purpose of selling or repurchasing them in the near term. They are recognized at fair value based on market prices, with any resulting gains and losses reflected in net income (loss) for the period in which they arise.

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

Financial instruments (cont'd...)

Loans and receivables and other financial liabilities

Loans and receivables are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Non-derivative financial assets that do not meet the definition of loans and receivables are classified as available-for-sale and comprise principally the Company's strategic investments in entities not qualifying as subsidiaries or associates. Available-for-sale investments are carried at fair value with changes in fair value recognized in other comprehensive loss/income. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive loss/income, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

On sale or impairment, the cumulative amount recognized in other comprehensive loss/income is reclassified from accumulated other comprehensive loss/income to profit or loss.

Impairment of financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of trade payables and accrued liabilities. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the year which are unpaid. Other liabilities include, among other things, accrued amounts for flow through share liabilities relating to taxes payable, accrued liabilities to indemnify shareholders and accrued interest payable on such liabilities.

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

Financial instruments (cont'd...)

Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

The Company classified its financial instruments as follows:

- Cash is classified as *loans and receivables*.
- Marketable securities are classified as *available for sale*.
- Other securities are classified as *held for trading*
- Accounts payable and accrued liabilities except for flow through share provisions have been classified as *other financial liabilities*.
- Amounts due from related parties are classified as *other financial liabilities*.

Transaction costs related to financial instruments other than FVTPL are capitalized as part of the cost of the financial instrument.

The Company does not use any derivative or hedging instruments.

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.

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

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

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. 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

	February 28, 2013	February 29, 2012
Cash at bank	$ 108,102	$ 389,758
Term deposits	1,062,514	-
Cash and cash equivalents	$ 1,170,616	$ 389,758

The term deposits of $1,062,514 earn annual interest rates between 0.75% and 1.40%, and their terms are within 90 days.

5. TAXES RECOVERABLE

	February 28, 2013	February 29, 2012
HST receivable	4,824	8,214
QST recoverable	891	21,416
	5,715	29,630

6. MARKETABLE SECURITIES

	February 28, 2013		February 29, 2012	
	Fair Value	Cost	Fair Value	Cost
Canada Zinc Metals Corp.	$ 23,800	$ 104,975	$ 44,200	$ 104,975
Eloro Resources Ltd.	11,250	116,260	35,625	116,260
Rio Grande Mining Corp.	3,000	74,500	76,500	74,500
	$ 38,050	$ 295,735	$ 156,325	$ 295,735

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

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. During the year ended February 28, 2011, the Company disposed of 15,000 of the shares.

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.

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 February 28, 2013, the fair market value of the marketable securities was $38,050 (February 29, 2012 - $156,325): Canada Zinc Metals Corp. $0.28 per share (February 29, 2012 - $0.52); Eloro Resources Ltd. $0.03 per share (February 29, 2012 - $0.10); Rio Grande Mining Corp. $0.01 per share (February 29, 2012 - $0.255) based on the closing bid price of shares on the TSX Venture Exchange.

During the year ended February 28, 2013, the Company recorded $2,000 as an unrealized loss (February 29, 2012 – $93,250) to the market values. The unrealized loss of marketable securities is reflected in other comprehensive loss during the reporting period.

During the year ended February 28, 2013, the company recorded $122,575 (February 29, 2012 - $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.

7. EQUIPMENT

		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

		Office equipment
Cost:		
At February 28, 2011	$	2,588
Additions		851
At February 29, 2012	$	3,439
Depreciation:		
At February 28, 2011		389
Charge for the year		787
At February 29, 2012		1,176
Net book value:		
At February 28, 2011		2,199
At February 29, 2012	$	2,263

8. EXPLORATION AND EVALUATION ASSETS

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

	Sedex Zinc Property	Ralleau Project	
	British Columbia, Canada	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	(12,795)	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

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

	Sedex Zinc Property British Columbia, Canada	Ralleau Project Quebec, Canada	Total
Total acquisition costs	$ 235,000	$ 88,222	$ 323,222
Total exploration advance	(183,500)	-	(183,500)
Total cost recovery	(72,000)	-	(72,000)
Total deferred exploration costs	68,258	564,706	632,964
Balance, February 28, 2011	47,758	652,928	700,686
Acquisition costs			
Cash	-	8,321	8,321
Acquisition costs	-	8,321	8,321
Exploration costs			
Reports and field	500	3,800	4,300
Taxes and assessment fees	14,377	-	14,377
Deferred exploration costs	14,877	3,800	18,677
Cost recovery			
Quebec mining tax credit received	-	(101,120)	(101,120)
Option payments received			
Shares	(40,000)	-	(40,000)
Cost recovery	(40,000)	(101,120)	(141,120)
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	83,135	568,506	651,641
Balance, February 29, 2012	$ 22,635	$ 563,929	$ 586,564

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.

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

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;
- 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

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.

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 February 28, 2013, there were 28,996,716 (February 29, 2012 – 17,796,716) issued and fully paid common shares.

During the year ended February 29, 2012,

a) On May 4, 2011, the Company's issued capital was altered by consolidating on a 4:1 basis all of the 42,127,233 issued common shares without par value into 10,531,807 common shares without par value. The basic and diluted loss per share figures and the weighted average number of shares have been retroactively restated on the statement of operations. The common share consolidation was approved by the shareholders at the Company's Special Meeting held on December 20, 2010.

b) On July 22, 2011, the Company closed the non-brokered private placement and raised $671,526. A total of 6,715,265 units at a price of $0.10 per unit were issued. Each unit consists of one common share and one transferable share purchase warrant. Each warrant entitled the holder to purchase one additional common share of the Company at a price of $0.135 per share until July 20, 2013. The Company paid share issuance costs of 437,144 units under the same terms as the units above representing 6.5% of the total proceeds raised under the private placement financing. Directors, officers, and insiders of the company subscribed for $37,500 of the offering, representing 375,000 units or 5.6% of the above financing.

c) Received $15,188 as a result of 112,500 warrants being exercised at $0.135 per share.

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

Share capital distribution

Pursuant to the Asset Purchase Agreement with Eloro, the Company agreed to distribute the 70,000,000 shares of Eloro to its shareholders on a pro rata basis which were valued at $6,300,000 at February 28, 2011 based on the trading price of the shares on that date. During year ended February 29, 2012, the Company cancelled all of its issued and outstanding shares and immediately reissued new shares in the same amount together with the Eloro shares, which were distributed at a ratio of 1.6616329869 Eloro shares for each share of the Company held by the shareholders of record on January 7, 2011. The share distribution was settled on March 17, 2011, at which date the Eloro shares were valued at $5,600,000.

The $700,000 recorded as a loss relates to the difference between the Eloro shares recorded on the date of the share capital distribution payable and the fair market value of the Eloro shares on the date of distribution.

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 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.

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.

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

Share options (cont'd...)

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 29, 2013:

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 at the date of exercised was $0.10.

During the year ended February 29, 2012:

On July 22, 2011, the Company granted its directors, officers, and consultants' options to purchase 1,050,000 common shares at a price of $0.25 per share for a period of five years. The fair value of share options granted July 22, 2011 was estimated at the grant date using the Black – Scholes option pricing model with estimated volatility of 131.42%, risk free rate of 1.68%, annual rate of dividends of zero and expected life of 5 years. With these assumptions, the fair value of options was determined to be $175,350 which has been expensed with a corresponding credit to share-based payment reserve.

A summary of share options outstanding as at February 28, 2013 is as follows:

	Granted date	Number of Options	Weighted Average Exercise Price $	Weighted Average Number of Years to Expiry
Balance, February 28, 2011		316,250	0.52	1.53
Options forfeited/expired		(160,000)	0.58	
Options granted	July 22, 2011	1,050,000	0.25	
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, 2013	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

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

Share options (cont'd...)

As at February 28, 2013, the following incentive share options are outstanding and exercisable:

Number of Options	Exercise Price	Expiry Date
93,750	0.52	March 4, 2013 *
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
1,568,750		

* Subsequent to the year ended February 28, 2013, 93,750 options with an exercise price of $0.52 expired without exercise.

Warrants

A summary of changes in warrants outstanding as at February 28, 2013 is as follows:

	Warrants Outstanding	Weighted average Exercise price -$-	Weighted Average number of years to expiry
Balance, February 28, 2011	375,000	0.40	0.49
Warrants expired	(375,000)	0.400	
Warrants granted with private placement	6,715,265	0.135	1.14
Finders fee warrants	437,144	0.135	1.14
Warrants exercised	(112,500)	0.135	
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	18,782,409	0.135	2.81

Details of warrants outstanding as at February 28, 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
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 28, 2011	$	122,713
Share based compensation expense - granted July 22, 2011		175,350
Share Option expired		(72,462)
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

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	$	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.

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

As at February 29, 2012		
Assets		
Marketable secuirites		156,325
Total	$	156,325

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 February 28, 2013, the Company had working capital of $776,828 (February 29, 2012 - $75,205). The payment terms for accounts payable and accrued liabilities from vendors are generally 30 days or due on receipt.

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

Financial Instrument Risks (cont'd...)

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 February 28, 2013, the Company had cash and cash equivalents balance of $1,170,616 of which $1,062,514 were in term deposits earning interest at rates between 0.75% and 1.40% per annum. The Company had no interest-bearing debt.

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 February 28, 2013, $13,850 (February 29, 2012 - $15,850) was due to directors and officers of the Company for accrued management fees.

Due to related parties:

	February 28, 2013	February 29, 2012
	- $ -	**- $ -**
Company controlled by CFO	5,000	-
Director	6,000	6,000
Director and corporate secretary (former)	-	2,000
Directors (former)	2,850	7,850
	13,850	15,850

13. RELATED PARTY TRANSACTIONS (cont'd...)

During the year ended February 28, 2013 and February 29, 2012, the Company entered into the following transactions with related parties:

	Years ended	
	February 28, 2013	February 29, 2012
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors and a former directors:		
Consulting fees	$ -	$ 5,000
Management and directors fees	96,000	156,500
Professional fees	12,700	14,750
Rent and office	-	16,000
Share-based payments	48,737	175,350
	$ 157,437	$ 367,600

During the year ended February 28, 2013, the Company granted 725,000 (February 29, 2012 – 1,050,000) options to its directors and officers, valued at $48,682 (February 29, 2012 – $175,350).

The following share options were granted to management:

	February 28, 2013		February 29, 2012	
	Number of Options	Options Valuation	Number of Options	Options Valuation
President, CEO and Chairman	200,000	14,450	450,000	75,150
CFO	125,000	5,387	-	-
Director	400,000	28,900	200,000	33,400
Directors (former)	-	-	400,000	66,800
	725,000	48,737	1,050,000	175,350

Management compensation consisted of the following:

	Years ended	
	February 28, 2013	February 28, 2012
	- $ -	**- $ -**
Company controlled by CEO	66,000	72,000
Company controlled by CFO	30,000	15,000
Director	-	8,000
Directors (former)	-	61,500
	96,000	156,500

14. PRIOR YEAR RESTATMENT

Subsequent to the Board's approval of the financial statements for the year ended February 29, 2012, it was noted that $80,625 relating to a decline in value of marketable securities held at that date had been incorrectly recognized within other comprehensive income rather than being presented as impairment through the statement of operations and comprehensive loss.

14. PRIOR YEAR RESTATMENT (cont'd...)

As a result of this determination, and in accordance with IAS 39, the Company has reclassified the loss previously recognized in other comprehensive income from accumulated other comprehensive income to accumulated deficit. As at and for the year ended February 29, 2012, this reclassification adjustment resulted in a $80,625 decrease in other comprehensive loss, a $80,625 increase in loss on impairment of available-for-sale investments, a $80,625 decrease in accumulated other comprehensive loss, and a $80,625 increase in accumulated deficit. For the year ended February 29, 2012, the reclassification adjustment did not have an impact on operating, financing, or investing cash flow activities, did not have an impact on the fair value of marketable securities disclosed in the statement of financial position and there was no change in loss per share.

15. SUPPLEMENTAL CASH FLOW INFORMATION

During the year ended February 28, 2013, the Company recognized unrealized losses on marketable securities of $2,000, share-based payments of $61,666, awarrant reserve of $52,573, and had included $8,998 in accounts payable for mineral property evaluation and exploration. The Company reclassified the fair value on expired unexercised share options of $80,721, and the fair value on exercised share options of $14,450.

During the years ended February 29, 2012, the Company recognized unrealized loss on marketable securities of $93,250, a loss from share capital distribution of $700,000, and share based payments of $175,350. The Company recognized the fair value on cancelled unexercised share options of $72,462.

During the year ended February 29, 2012, the Company received marketable securities valued at $40,000 pursuant to an option agreement on its mineral properties. The value was determined by the quote price of the securities when received.

16. COMMITMENTS AND CONTINGENCIES

As at February 28, 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. The effective date of the revised agreement was Jan 1, 2013. The management agreement with the company controlled by the CEO also contains a 30 days termination clause.

The Company also entered into a revised management agreement with a company controlled by the CFO of the Company dated April 23, 2013. The effective date of the revised agreement was March 1, 2013. The management agreement with the company controlled by the CFO also 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.

17. 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.

18. INCOME TAXES

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate arises as follows:

	February 28, 2013 **$**	**February 29, 2012** **$**
Profit/(loss) before income taxes	**(490,291)**	**(1,386,348)**
Tax charge/(recovery) based on the statutory rate of 26.90% (2012: 28.15%)	(132,000)	(390,000)
Effect of change in tax rates on deferred tax	-	22,000
Non-deductible expenses	14,000	863,000
Non-taxable portion of capital gains	-	(733,000)
Other	17,000	(12,000)
Share issue costs	(20,000)	-
Changes in unrecognized tax assets	121,000	127,000
Total income tax expense / (recovery)	**-**	**(123,000)**

Effective January 1, 2012, the Canadian Federal corporate tax rate decreased from 16.5% to 15% and the Quebec provincial tax rate remained unchanged at 11.9%.

Deferred Tax Assets and Liabilities

The nature and tax effect of the taxable temporary differences giving rise to deferred tax assets and liabilities are summarized as follows:

	February 28, 2013 **$**	**February 29, 2012** **$**
Loss carry forwards	124,000	56,000
Mineral Property	63,000	40,000
Other Securities	37,000	-
Other temporary differences	24,000	31,000
Unrecognized deferred tax assets	(248,000)	(127,000)
	-	**-**

Tax Losses

As at February 28, 2013, the Company has estimated capital and non-capital losses for Canadian income tax purposed that may be carried forward to reduce taxable income derived in future years. The Company has $211,962 and $250,181 of non-capital losses expiring in 2032 and 2033 respectively.

19. EVENTS AFTER THE REPORTING PERIOD

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.