MEGASTAR DEVELOPMENT CORP.

CONDENSED INTERIM FINANCIAL STATEMENTS

SIX MONTHS ENDED AUGUST 31, 2014

EXPRESSED IN CANADIAN DOLLARS

(Unaudited – Prepared by Management)

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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 DAVIDSON & COMPANY 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.

October 23, 2014

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

	Notes		August 31, 2014		February 28, 2014
ASSETS					
Current assets					
Cash and cash equivalents	4	$	965,000	$	1,042,037
Taxes recoverable	5		8,556		2,319
Marketable securities	6		51,368		52,811
Prepaid expenses and deposits			15,580		8,624
Total current assets			1,040,504		1,105,791
Non-current assets					
Equipment	7		942		1,109
Exploration and evaluation assets	8		263,032		223,167
Total non-current assets			263,974		224,276
TOTAL ASSETS		$	1,304,478	$	1,330,067
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable, accrued liabilities and other liabilities	15	$	567,444	$	518,785
Due to related parties	13		11,457		13,850
Total current liabilities			578,901		532,635
Total liabilities			578,901		532,635
Shareholders' equity					
Share capital	9		5,141,178		5,141,178
Reserves	10		190,023		208,339
Accumulated other comprehensive income	14		13,318		14,761
Deficit			(4,618,942)		(4,566,846)
Total shareholders' equity			725,577		797,432
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	1,304,478	$	1,330,067

Approved and authorized for issue on behalf of the Board on October 23, 2014

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

		Three Months Ended		Six months ended	
	Notes	August 31, 2014	August 31, 2013	August 31, 2014	August 31, 2013
Expenses					
Accounting and audit fees	13	$ 2,719	$ 2,926	$ 5,219	$ 8,826
Depreciation		83	119	166	238
Insurance		1,813	1,700	3,575	3,369
Legal fees		128	603	171	1,290
Management fees	13	15,000	15,000	30,000	30,000
Office, telephone and miscellaneous		1,921	916	1,618	1,737
Rent		3,000	3,000	6,000	6,000
Shareholder information		-	-	587	619
Transfer agent and filing fees		2,391	3,200	5,775	4,697
Travel		1,634	1,635	1,634	1,635
Loss before other income (expenses)		(28,689)	(29,099)	(54,745)	(58,411)
Other income (expenses):					
Interest expenses related to flow-through shares	15	(11,285)	(71,471)	(22,570)	(71,471)
Interest income		3,279	3,875	6,903	7,370
Net loss for the year		(36,695)	(96,695)	(70,412)	(122,512)
Other comprehensive income (loss)					
Unrealized gain (loss) on marketable securities	6 & 14	8,764	(268)	(1,443)	(13,436)
Total comprehensive loss for the year		(27,931)	(96,963)	$ (71,855)	$ (135,948)
Weighted average number of common shares outstanding (basic and diluted)		28,996,716	28,996,716	28,996,716	28,996,716
Basic and diluted loss per share		$ (0.001)	$ (0.003)	$ (0.002)	$ (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 income (loss)		
	Number of shares issued	Amount	Warrant reserve	Share-based payments reserve	Unrealized marketable securities gain (loss)	Deficit	Total
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	-	-	-	-	-	(122,512)	(122,512)
Unrealized loss on marketable securities	-	-	-	-	(13,436)	-	(13,436)
Fair value of options expired (Note 9 and 10)	-	-	-	(36,330)	-	36,330	-
Balance, August 31, 2013	28,996,716	5,141,178	52,573	155,766	(13,436)	(4,186,572)	1,149,509
Balance, February 28, 2014	28,996,716	5,141,178	52,573	155,766	14,761	(4,566,846)	797,432
Comprehensive loss:							
Net loss for the period	-	-	-	-	-	(70,412)	(70,412)
Unrealized gain on marketable securities	-	-	-	-	(1,443)	-	(1,443)
Fair value of options expired (Note 9 and 10)	-	-	-	(18,316)	-	18,316	-
Balance, August 31, 2014	28,996,716	$ 5,141,178	$ 52,573	$ 137,450	$ 13,318	$ (4,618,942)	$ 725,577

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

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

	Six months ended August 31, 2014	Six months ended August 31, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss for the period	$ (70,412)	$ (122,512)
Adjustments to reconcile loss to net cash used in operating activities:		
Depreciation	166	238
Interest expenses related to flow-through shares	22,570	71,471
Interest income	(6,903)	(7,370)
	(54,579)	(58,173)
Net changes in non-cash working capital accounts		
Increase (decrease) in taxes recoverable	(6,237)	3,348
Decrease in prepaid expenses and deposits	(6,955)	(3,897)
Increase (decrease) in accounts payable and accrued liabilities	2,940	(8,673)
Cash used in operating activities	(64,831)	(67,395)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received	6,903	7,370
Evaluation and exploration expenditures	(6,609)	(4,240)
Increase (decrease) in due to related parties	(12,500)	350
Cash provided by (used in) investing activities	(12,206)	3,480
Net change in cash and cash equivalents	(77,037)	(63,915)
Cash and cash equivalents, beginning balance for the period	1,042,037	1,170,616
Cash and cash equivalents, ending balance for the period	$ 965,000	$ 1,106,701

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 August 31, 2014, the Company had no revenue producing operations and has an accumulated deficit of $4,618,942 (February 28, 2014 - $4,566,846) since its inception. However, the Company has sufficient cash resources 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 1128, 789 West Pender Street, Vancouver, British Columbia, 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 West Georgia Street, Vancouver, British Columbia, 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 2014 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 2014 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 accrual 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 six months ended August 31, 2014, were authorized for issue on October 23, 2014 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 believes 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.

New Accounting Standards Adopted

The Company has adopted the following accounting standards effective May 1, 2013. The adoption of these accounting standards had no significant impact on the financial statements. These standards are:

- IAS 1 (Amendment): This standard is amended to change the disclosure of items presented in OCI, including a requirement to separate items presented in OCI into two groups based on whether or not they may be recycled to profit or loss in the future.
- IFRS 7 (Amendment): This standard is amended to enhance disclosure requirements related to offsetting of financial assets and financial liabilities.
- IFRS 10: New standard to establish principles for the presentation and preparation of consolidated financial statements.
- IFRS 11: New standard to account for the rights and obligations in accordance with a joint agreement.
- IFRS 12: New standard for the disclosure of interest in other entities not within the scope of IFRS 9 / IAS 39.
- IFRS 13: New standard on the measurement and disclosure of fair value.
- IAS 27 (Amendment): As a result of the issue of IFRS 10, IFRS 11 and IFRS 12. IAS 27 deals solely with separate financial statements.
- IAS 28 (Amendment): New standard issued that supersedes IAS 28 (2003) to prescribe the application of the equity method to investments in associates and joint ventures.

New 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") beginning after January 1, 2014 or later years. 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.

- IAS 32 (Amendment): Standard amended to clarify requirements for offsetting financial assets and financial liabilities, effective for annual periods beginning on or after January 1, 2014.
- IFRS 7: Amended to require additional disclosures on transition from IAS 39 and IFRS 9, effective for annual periods beginning on or after January 1, 2015.
- IFRS 9: New standard that replaced IAS 39 for classification and measurement, effective for annual periods beginning on or after January 1, 2018.

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

(EXPRESSED IN CANADIAN DOLLARS)

4. CASH AND CASH EQUIVALENTS

		August 31, 2014		February 28, 2014
Cash at bank	$	112,458	$	8,015
Term deposits		852,542		1,034,022
Cash and cash equivalents	$	965,000	$	1,042,037

Term deposits of $852,542 earn interest at annual interest rates between 0.80% and 1.40%, and their terms are within 90 days.

5. TAXES RECOVERABLE

		August 31, 2014		February 28, 2014
GST receivable	$	3,726	$	1,345
QST recoverable		4,829		974
	$	8,556	$	2,319

6. MARKETABLE SECURITIES

		August 31, 2014				February 28, 2014		
		Fair Value		Cost		Fair Value		Cost
Canada Zinc Metals Corp.	$	44,200	$	104,975	$	45,900	$	104,975
Eloro Resources Ltd.		5,625		116,260		5,625		116,260
92 Resources Corp.		1,543		74,500		1,286		74,500
	$	51,368	$	295,735	$	52,811	$	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 a 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 a 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. On October 1, 2014, the shares of Eloro Resources Ltd. were rolled back 10:1.

Pursuant to an option agreement on the Company's interest in the Sedex Zinc Property in BC with 92 Resources Corp. (previously Rio Grande Mining Corp.), the Company received 100,000 shares of 92 Resources Corp. as partial consideration for 92 Resources Corp. earning up to a 60% interest in the Sedex Zinc Property in BC. An additional 50,000 shares were received from 92 Resources Corp. and then all shares were split on the basis of one old share for two new shares in the year 2011. On June 9, 2014, the shares of 92 Resources Corp. were rolled back 5:1.

As of August 31, 2014, the fair market value of the marketable securities was $51,368 (February 28, 2014 - $52,811): Canada Zinc Metals Corp. $0.52 per share (February 28, 2014 - $0.54); Eloro Resources Ltd. $0.015 per share (February 28, 2014 - $0.015); 92 Resources Corp. $0.18 per share (February 28, 2014 - $0.15) based on the closing bid price of shares on the TSX Venture Exchange.

(EXPRESSED IN CANADIAN DOLLARS)

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

During the year ended February 28, 2014, the Company recorded $Nil (February 28, 2013 - $122,575) as a loss on impairment of marketable securities, designated as available for sale financial instruments in accordance with IAS 33, on the basis that these were considered to have suffered a significant or prolonged decline in value as at that date.

During the year ended February 28, 2014, the Company recorded $14,761 as an unrealized gain (February 28, 2013 – $2,000 as an unrealized loss) to the market values. The unrealized gain of marketable securities is reflected in other comprehensive gain during the reporting period.

During the six months ended August 31, 2014, the Company recorded $1,443 as an unrealized loss (August 31, 2013 - $13,436) to the market values. The unrealized loss of marketable securities is reflected in other comprehensive loss during the reporting period.

7. EQUIPMENT

	Office equipment		Office equipment
Cost:		Cost:	
At February 28, 2014	$ 3,439	At February 28, 2013	$ 3,439
Additions	-	Additions	-
At August 31, 2014	$ 3,439	At February 28, 2014	$ 3,439
Depreciation:		Depreciation:	
At February 28, 2014	2,330	At February 28, 2013	1,855
Charges for the period	167	Charges for the period	475
At August 31, 2014	$ 2,497	At February 28, 2014	$ 2,330
Net book value:		Net book value:	
At February 28, 2014	1,109	At February 28, 2013	1,584
At August 31, 2014	$ 942	At February 28, 2014	$ 1,109

(EXPRESSED IN CANADIAN DOLLARS)

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	560,197	666,054
Total cumulative impairment charge	(45,356)	(332,454)	(377,810)
Balance,February 28, 2014	1	223,166	223,167
Exploration costs			
Reports and field	-	30,385	30,385
Travel and accommodation	-	8,604	8,604
Others	-	876	876
Deferred exploration costs	-	39,865	39,865
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	600,062	705,919
Total cumulative impairment charge	(45,356)	(332,454)	(377,810)
Balance, August 31, 2014	$ 1	$ 263,031	$ 263,032

	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			
Reports and field	-	525	525
Claim renew	-	3,960	3,960
Deferred exploration costs	-	4,485	4,485
Impairment charge	-	(288,363)	(288,363)
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	560,197	666,054
Total cumulative impairment charge	(45,356)	(332,454)	(377,811)
Balance, February 28, 2014	$ 1	$ 223,166	$ 223,167

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

a) Ralleau Project, Quebec, Canada

As at May 31, 2014, the Company has a 100% interest in 184 mineral claims, totaling 10,368 hectares, 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.

During the year ended February 28, 2013, an impairment charge of $44,091 was recognized due to the expiry of 16 claims.

An impairment charge of $288,363 was recognized at February 28, 2014, representing certain non-core claims expected to expire during the fiscal year ending February 28, 2015.

b) Sedex Zinc Property, British Columbia, Canada

At May 31, 2014, 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 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 the Sedex property. Goldeneye Resources Corp. has chosen not to pursue an option interest in the Sedex property.

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

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

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 the 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 were no share capital transactions during the six months ended August 31, 2014.

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 six months ended August 31, 2014,

On August 01, 2014, 300,000 share options exercisable at $0.10 expired unexercised.

On August 22, 2014, 125,000 share options exercisable at $0.10 expired unexercised.

During the year ended February 28, 2014,

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

(EXPRESSED IN CANADIAN DOLLARS)

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

Share Options (cont'd...)

A summary of share options outstanding as at August 31, 2014 is as follows:

	Number of Options	Weighted Average Exercise Price $	Weighted Average Number of Years to Expiry
Balance, February 28, 2014	1,475,000	0.17	1.70
Options expired	(425,000)		
Balance, February 28, 2014 and August 31, 2014	1,050,000	0.19	1.71

As at August 31, 2014, the following incentive share options are outstanding and exercisable:

Number of Options	Exercise Price $	Expiry Date
650,000	0.25	July 22, 2016
400,000	0.10	January 29, 2016
1,050,000		

Warrants

On May 3, 2013, the Company received approval from the 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.

During the six months ended August, 2014, 742,500 warrants exercisable at $0.135 per share expired unexercised.

During the year ended February 28, 2014, 437,144 warrants exercisable at $0.135 per share expired unexercised.

A summary of changes in warrants outstanding as at August 31, 2014 and February 28, 2014 is as follows:

	Warrants Outstanding	Weighted average Exercise price -$-	Weighted Average number of years to expiry
Balance, February 28, 2013	18,782,409	0.135	2.55
Warrants expired	(437,144)	0.135	
Balance, February 28, 2014	18,345,265	0.135	1.61
Warrants expired	(742,500)	0.135	
Balance, August 31, 2014	17,602,765	0.135	1.43

(EXPRESSED IN CANADIAN DOLLARS)

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

Warrants (cont'd...)

Details of warrants outstanding as at August 31, 2014 are as follows:

Number of Warrants	Exercise Price - $ -	Expiry Date
6,602,765	0.135	July 20, 2015
11,000,000	0.135	June 1, 2016
17,602,765		

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, 2013	$	192,096
Share option expired		(36,330)
Balance, February 28, 2014	$	155,766
Share option expired		(18,316)
Balance, August 31, 2014	$	137,450

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, 2014 and 2013	$	52,573
No warrants granted		-
Balance, August 31, 2014	$	52,573

(EXPRESSED IN CANADIAN DOLLARS)

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 within 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 value measurement.

As at August 31, 2014		
Assets		
Cash and cash equivalents	$	965,000
Marketable securities		51,368
Total	$	1,016,368

As at February 28, 2014		
Assets		
Cash and cash equivalents		1,042,037
Marketable secuirites		52,811
Total	$	1,094,848

The Company's cash and cash equivalents 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.

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

Financial Instrument Risks (cont'd...)

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 August 31, 2014, the Company had a working capital of $461,603 (February 28, 2014 - $573,156). 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 August 31, 2014, the Company had cash and cash equivalents balance of $965,000 of which $852,542 were in term deposits earning interest at rates between 0.80% 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.

(EXPRESSED IN CANADIAN DOLLARS)

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 August 31, 2014, $11,457 (February 28, 2014 - $13,850) was due to directors and officers of the Company.

	August 31, 2014	February 28, 2014
	- $ -	- $ -
Company controlled by CEO	107	-
Company controlled by CFO	2,500	5,000
Director	6,000	6,000
Directors (former)	2,850	2,850
	11,457	13,850

During the six months ended August 31, 2014 and 2013, the Company entered into the following transactions with related parties:

	Six months ended			
		August 31, 2014		August 31, 2013
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors and a former directors:				
Management and directors fees	$	30,000	$	30,000
Professional fees		3,529		2,701
	$	33,529	$	32,701

Management compensation consisted of the following:

	Six months ended			
		August 31, 2014		August 31, 2013
Company controlled by CEO	$	18,000	$	18,000
Company controlled by CFO		12,000		12,000
	$	30,000	$	30,000

14. SUPPLEMENTAL CASH FLOW INFORMATION

During the six months ended August 31, 2014, the Company recognized unrealized losses on marketable securities of $1,443. The Company reclassified the fair value on expired unexercised share options of $18,316 to retained earnings.

During the six months ended August 31, 2013, the Company recognized unrealized losses on marketable securities of $13,436. The Company reclassified the fair value on expired unexercised share options of $36,330 to deficit.

15. COMMITMENTS AND CONTINGENCIES

As at August 31, 2014, 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 January 1, 2013. The management agreement with the company controlled by the CEO contains a 30 day 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 day 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 $145,903. 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 $247,386 as at August 31, 2014 and has included a provision for this amount together with the interest and penalty accruals in other liabilities. As at August 31, 2014, the total amount of $522,066 included within other liabilities includes taxes payable of $85,042, penalties of $100,824, shareholder indemnity liability of $190,297, and total interest of $145,903. 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.