MEGASTAR DEVELOPMENT CORP.

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED AUGUST 31, 2016

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 Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

October 28, 2016

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

	Notes		August 31, 2016		February 29, 2016
ASSETS					
Current assets					
Cash and cash equivalents	4	$	651,267	$	702,697
Taxes recoverable	5		2,577		2,486
Marketable securities	6		51,050		15,625
Prepaid expenses and deposits			942		4,992
Total current assets			705,836		725,800
Non-current assets					
Equipment	7		462		543
Exploration and evaluation assets	8		164,726		221,318
Total non-current assets			165,188		221,861
TOTAL ASSETS		$	871,024	$	947,661
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable, accrued liabilities and other liabilities	15	$	6,810	$	19,894
Due to related parties	13		4,850		17,100
Total current liabilities			11,660		36,994
Total liabilities			11,660		36,994
Shareholders' equity					
Share capital	9		5,141,178		5,141,178
Reserves	10		82,458		161,122
Accumulated other comprehensive loss	14		16,000		(19,425)
Deficit			(4,380,272)		(4,372,208)
Total shareholders' equity			859,364		910,667
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$	871,024	$	947,661

Approved and authorized for issue on behalf of the Board on October 28, 2016

"Dusan Berka" Director
Dusan Berka

"Jonathan Rich " Director
Jonathan Rich

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

MEGASTAR DEVELOPMENT CORP.

CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPEREHENSIVE LOSS

(EXPRESSED IN CANADIAN DOLLARS)

		Three Months Ended		Six months ended	
	Notes	August 31, 2016	August 31, 2015	August 31, 2016	August 31, 2015
Expenses					
Accounting and audit fees	13	$ 1,906	$ 469	$ 3,906	$ 2,969
Consulting fees		-	1,500	-	1,500
Depreciation	7	41	58	81	116
Insurance		2,025	1,275	4,050	3,188
Legal fees		4,177	499	4,322	4,336
Management fees	13	15,000	15,000	30,000	30,000
Office, telephone and miscellaneous		2,772	1,048	3,333	1,479
Rent		3,000	3,000	6,000	6,000
Share-based payments	9 & 13	29,885	-	29,885	-
Shareholder information		1,714	1,889	1,729	3,811
Transfer agent and filing fees		3,224	5,636	3,814	6,537
Travel		-	11	-	556
Loss before other income (expenses)		(63,744)	(30,385)	(87,120)	(60,492)
Other income (expenses):					
Impairment of exploration and evaluation interest	8	-	-	(29,693)	-
Loss on sale of marketable securities	6	-	(2,743)	-	(2,743)
Interest income		188	1,889	200	4,033
Net loss for the period		(63,556)	(31,239)	(116,613)	(59,202)
Other comprehensive income (loss)					
Unrealized gain (loss) on marketable securities	6	25,525	(1,321)	35,425	(3,093)
Total comprehensive loss for the period		(38,031)	(32,560)	$ (81,188)	$ (62,295)
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 earnings (loss) per share		$ (0.002)	$ (0.001)	$ (0.004)	$ (0.002)

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

MEGASTAR DEVELOPMENT CORP.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' 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, 2015	28,996,716	$ 5,141,178	$ 52,573	$ 137,450	$ (10,407)	$ (4,460,367)	$ 860,427
Net loss for the period	-	-	-	-	-	(59,202)	(59,202)
Unrealized loss on marketable securities	-	-	-	-	(3,093)	-	(3,093)
Balance, August 31, 2015	28,996,716	5,141,178	52,573	137,450	(13,500)	(4,519,569)	798,132
Balance, February 29, 2016	28,996,716	5,141,178	52,573	108,549	(19,425)	(4,372,208)	910,667
Net loss for the period	-	-	-	-	-	(116,613)	(116,613)
Unrealized gain on marketable securities	-	-	-	-	35,425	-	35,425
Fair value of options expired (Note 9 and 10)	-	-	-	(108,549)	-	108,549	-
Fair value of options granted (Note 9 and 10)	-	-	-	29,885	-	-	29,885
Balance, August 31, 2016	28,996,716	$ 5,141,178	$ 52,573	$ 29,885	$ 16,000	$ (4,380,272)	$ 859,364

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, 2016	August 31, 2015
CASH FLOWS USED IN OPERATING ACTIVITIES		
Net loss for the period	$ (116,613)	$ (59,202)
Adjustments to reconcile loss to net cash used in operating activities		
Depreciation	81	116
Impairment of exploration and evaluation interest	29,693	-
Loss on sale of marketable securities	-	2,743
Share-based payments	29,885	-
Interest income	(200)	(4,033)
Net changes in non-cash working capital accounts		
Increase in taxes recoverable	(92)	(2,233)
Decrease in prepaid expenses and deposits	4,050	3,188
Decrease in accounts payable and accrued liabilities	(18,333)	(13,708)
Decrease in due to related parties	(7,000)	(4,600)
Cash used in operating activities	(78,529)	(77,729)
CASH FLOWS USED IN INVESTING ACTIVITIES		
Interest received	200	4,033
Proceeds from sale of marketable securities	-	257
Exploration and evaluation expenditures	26,900	(12,002)
Cash provided by (used in) investing activities	27,100	(7,712)
Net change in cash and cash equivalents	(51,429)	(85,441)
Cash and cash equivalents, beginning balance for the period	702,696	832,973
Cash and cash equivalents, ending balance for the period	$ 651,267	$ 747,532

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, 2016, the Company had no revenue producing operations and has an accumulated deficit of $4,380,272 (February 29, 2016 - $4,372,208) 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 1450, 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 2016 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 2016 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 interim financial statements

The financial statements of the Company for the six months ended August 31, 2016, were authorized for issue on October 28, 2016 by the Board of Directors of the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Significant accounting 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.

Significant accounting judgements

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 an expenditure is capitalized, information becomes available suggesting that the recovery of the 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 Share Provisions

Flow-through share provisions comprise 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.

(EXPRESSED IN CANADIAN DOLLARS)

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

Significant accounting judgments (cont'd...)

v) Share-based Payment Transactions

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

Accounting standards, amendments and interpretations not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the IFRIC during the year, but are not yet effective. 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.

IFRS 9 Financial Instruments – IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. IFRS 9 is applicable to annual reporting periods beginning on or after January 1, 2018.

IFRS 15, Revenue from Contracts with Customers - IFRS 15 is a new standard to establish principles for reporting the nature, amount, timing, and uncertainty of revenue and cash flows arising from an entity's contracts with customers. It provides a single model in order to depict the transfer of promised goods or services to customers. IFRS 15 supersedes IAS 11, Construction Contracts, IAS 18, Revenue, IFRIC 13, Customer Loyalty Programs, IFRIC 15, Agreements for the Construction of Real Estate, IFRIC 18, Transfers of Assets from Customers, and SIC-31, Revenue – Barter Transactions involving Advertising Service. IFRS 15 is applicable to annual reporting periods beginning on or after January 1, 2018.

IFRS 16, Leases - IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. IFRS 15 is applicable to annual reporting periods beginning on or after January 1, 2019.

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

4. CASH AND CASH EQUIVALENTS

	August 31, 2016	February 29, 2016
Cash at bank	$ 640,254	$ 691,647
Term deposits	11,013	11,050
Cash and cash equivalents	$ 651,267	$ 702,697

Term deposits of $11,013 earn interest at an annual interest rate of 0.40%, and their terms are within 90 days.

(EXPRESSED IN CANADIAN DOLLARS)

5. TAXES RECOVERABLE

		August 31, 2016		February 29, 2016
GST receivable	$	2,505	$	1,461
QST recoverable		72		1,025
	$	2,577	$	2,486

6. MARKETABLE SECURITIES

	August 31, 2016				February 29, 2016			
		Fair Value		Cost		Fair Value		Cost
Canada Zinc Metals Corp.	$	32,300	$	104,975	$	8,500	$	104,975
Eloro Resources Ltd.		18,750		116,260		7,125		116,260
	$	51,050	$	221,235	$	15,625	$	221,235

On July 16, 2015, the Company sold 8,571 shares of 92 Resources Corp. at $0.03 per share for the net proceeds of $257, and recorded $2,743 as a loss on sale of marketable securities.

During the year ended February 29, 2016, the Company recorded $9,018 as an unrealized loss (February 28, 2015 - $25,168) on its marketable securities. The unrealized gain and loss of marketable securities is reflected in other comprehensive income (loss) during the reporting period.

During the six months ended August 31, 2016, the Company recorded $35,425 as an unrealized gain (August 31, 2015 – an unrealized loss of $3,093) to the market values. The unrealized gain or loss of marketable securities is reflected in other comprehensive income (loss) during the reporting period.

7. EQUIPMENT

		Office equipment
Cost:		
At February 29, 2016	$	3,439
Additions		-
At August 31, 2016	$	3,439
Depreciation:		
At February 29, 2016		2,896
Charges for the period		81
At August 31, 2016	$	2,977
Net book value:		
At February 29, 2016	$	543
At August 31, 2016	$	462

		Office equipment
Cost:		
At February 28, 2015	$	3,439
Additions		-
At February 29, 2016	$	3,439
Depreciation:		
At February 28, 2015		2,663
Charges for the period		233
At February 29, 2016	$	2,896
Net book value:		
At February 28, 2015	$	776
At February 29, 2016	$	543

(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	659,127	764,984
Total cumulative impairment charge	(45,356)	(433,233)	(478,589)
Opening Balance, February 28, 2016	1	221,317	221,318
Exploration costs			
Others	-	1,488	1,488
Deferred exploration costs	-	1,488	1,488
Cost recovery	-	(28,387)	(28,387)
Impairment charge	-	(29,693)	(29,693)
Balance of costs			
Total acquisition costs	235,000	96,543	331,543
Total exploration advance	(183,500)	-	(183,500)
Total cost recovery	(112,000)	(129,507)	(241,507)
Total deferred exploration costs	105,857	660,615	766,472
Total cumulative impairment charge	(45,356)	(462,926)	(508,282)
Ending Balance, August 31, 2016	$ 1	$ 164,725	$ 164,726

(EXPRESSED IN CANADIAN DOLLARS)

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

	Sedex Zinc Property British Columbia, Canada	Ralleau Project Quebec, Canada	Total
Total acquisition costs	$ 235,000	$ 96,543	$ 331,543
Total exploration advance	(183,500)	-	(183,500)
Total cost recovery	(112,000)	(101,120)	(213,120)
Total deferred exploration costs	105,857	646,317	752,174
Total cumulative impairment charge	(45,356)	(332,454)	(377,810)
Opening Balance, February 28, 2015	1	309,286	309,287
Exploration costs			
Field costs	-	10,012	10,012
Others	-	2,798	2,798
Deferred exploration costs	-	12,810	12,810
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	659,127	764,984
Total cumulative impairment charge	(45,356)	(433,233)	(478,589)
Ending Balance, February 29, 2016	$ 1	$ 221,317	$ 221,318

a) Ralleau Project, Quebec, Canada

At August 31, 2016, the Company had a 100% interest in 59 mineral claims, totaling 3,324 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 29, 2016, an impairment charge of $100,779 was recognized due to the expiry of 29 non-core mineral claims.

During the six months ended August 31, 2016, an impairment charge of $29,693 was recognized due to the expiry of non-core mineral claims.

b) Sedex Zinc Property, British Columbia, Canada

At August 31, 2016, the Company had a 100% interest in 8 mineral claims, totaling 3,056 hectares, located in the Omineca Mining Division, BC.

9. SHARE CAPITAL

Authorized share capital

Unlimited number of common shares without par value.

(EXPRESSED IN CANADIAN DOLLARS)

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

Issuance of share capital

There were no share capital transactions during the six months ended August 31, 2016.

Share Options

The Company adopted a share option plan (the "Share Option Plan") under which it may grant options to employees, officers, directors, or 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, 2016,

On July 22, 2016, 650,000 options exercisable at $0.25 expired unexercised.

On August 25, 2016, the Company granted 825,000 share options to its directors and officers, which were exercisable for a period of three years, at a price of $0.05 per share. As the fair value of the services could not be reliably measured, the Company used the Black-Scholes model to estimate the fair value of the share options granted. The fair value of share options granted was estimated at the grant date using the Black-Scholes pricing model with estimated volatility of 217%, a risk-free rate 0.58%, a dividend yield 0%, and expected life of 3 years. With these assumptions, the fair value of options was determined to be $29,885, which has been expensed with a corresponding credit to share-based payment reserve.

During the year ended February 29, 2016,

On January 29, 2016, 400,000 share options exercisable at $0.10 expired unexercised.

A summary of share options outstanding as at August 31, 2016 and February 29, 2016 is as follows:

	Number of Options	Weighted Average Exercise Price	Weighted Average Number of Years to Expiry
Balance, February 28, 2015	1,050,000	$0.19	1.21
Options expired	(400,000)	$0.10	
Balance, February 29, 2016	650,000	$0.25	0.39
Options granted	825,000	$0.05	
Options expired	(650,000)	$0.25	
Balance, August 31, 2016	825,000	$0.05	2.98

As at August 31, 2016, the following incentive share options are outstanding and exercisable:

Number of Options	Exercise Price	Expiry Date
825,000	$0.05	August 25, 2019
825,000		

(EXPRESSED IN CANADIAN DOLLARS)

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

Warrants

On June 19, 2015, the Company received approval from the TSX Venture Exchange to extend the terms of certain warrants previously issued. The warrants granted on July 20, 2011 and June 1, 2012 were extended to be expired on July 20, 2016 and June 1, 2017, respectively, from the revised expiry dates of July 20, 2015 and June 1, 2016. All other terms of the warrants remain the same.

During the six months ended August 31, 2016,

On July 20, 2016, 6,602,765 warrants exercisable at $0.135 expired unexercised.

A summary of changes in warrants outstanding as at August 31, 2016 and February 29, 2016 is as follows:

	Warrants Outstanding	Weighted average Exercise price	Weighted Average number of years to expiry
Balance, February 28, 2015	17,602,765	$0.135	0.93
No warrants granted, cancelled or expired	-		
Balance, February 29, 2016	17,602,765	$0.135	0.93
Warrants expired	(6,602,765)		
Balance, August 31, 2016	11,000,000	$0.135	0.75

Details of warrants outstanding as at August 31, 2016 are as follows:

Number of Warrants	Exercise Price	Expiry Date
11,000,000	$0.135	June 1, 2017
11,000,000		

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, 2015	$	137,450
Share option expired		(28,901)
Balance, February 29, 2016	$	108,549
Share option granted		29,885
Share option expired		(108,549)
Balance, August 31, 2016	$	29,885

(EXPRESSED IN CANADIAN DOLLARS)

10. RESERVES (cont'd...)

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	$	52,573
No warrants granted		-
Balance, August 31, 2016 and February 29, 2016	$	52,573

11. CAPITAL DISCLOSURE

The Company considers its capital structure to include the net residual equity of all assets, less liabilities. Capital comprises 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 period.

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 measurements 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 – Inputs for assets or liabilities that are not based on observable market data.

(EXPRESSED IN CANADIAN DOLLARS)

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

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, 2016		
Assets		
Marketable securities	$	51,050
Total	$	51,050

As at February 29, 2016		
Assets		
Marketable securities	$	15,625
Total	$	15,625

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

The fair value of accounts payable, accrued liabilities, other liabilities and due to related parties approximates their carrying values due to their short term to maturity.

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 August 31, 2016, the Company had a working capital of $694,176 (February 29, 2016 - $688,806). 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.

(EXPRESSED IN CANADIAN DOLLARS)

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

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, 2016, the Company had cash and cash equivalents balance of $651,267 of which $11,013 were in term deposits earning interest at a rate of 0.40% 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.

As at August 31, 2016, $4,850 (February 29, 2016 - $17,100) was due to directors and officers of the Company.

	August 31, 2016	February 29, 2016
Company controlled by CEO	$ -	$ 3,150
Company controlled by CFO	2,000	5,100
Directors (former)	2,850	8,850
	$ 4,850	$ 17,100

During the six months ended August 31, 2016 and 2015, the Company entered into the following transactions with related parties:

	Period ended	
	August 31, 2016	August 31, 2015
Expenses paid or accrued to directors of the Company, senior officers and companies with common directors and former directors:		
Management and directors fees	$ 30,000	$ 30,000
Professional fees	5,216	1,579
Share-based payments	29,885	-
	$ 65,101	$ 31,579

Management compensation consisted of the following:

	Period ended	
	August 31, 2016	August 31, 2015
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, 2016, the Company recognized an unrealized gain on marketable securities of $35,425 (August 31, 2015 – an unrealized loss of $3,093) and share-based payments of $29,885 (August 31, 2015 - $Nil).

15. COMMITMENTS AND CONTINGENCIES

As at February 28, 2015, the Company recognized recoveries on the flow-through investor indemnification of $213,644 relating to prior years' tax filings. The Company estimated that the total potential liability was $285,832 as at February 28, 2015 which included flow through taxes payable of $85,042, penalties related to non-filing of $100,824, and total accumulated interest of $99,966.

During the year ended February 29, 2016, the probability of settlement of the potential liability decreased sufficiently for the Company, allowing it to derecognize the provision. As a result, the Company recognized additional recoveries of $285,832. The Company may be required to settle this potential liability in the future. The outcome of the amount of actual claims, if any, is contingent on future assessments to the Company and its 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.