Barkerville Gold Mines Ltd.

CONSOLIDATED FINANCIAL STATEMENTS

February 28, 2013

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Independent Auditor's Report

To the Shareholders of
Barkerville Gold Mines Ltd.

We have audited the accompanying consolidated financial statements of Barkerville Gold Mines Ltd., which comprise the consolidated statements of financial position as at February 28, 2013 and February 29, 2012, and the consolidated statements of 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements present fairly, in all material respects, the financial position of Barkerville Gold Mines Ltd. 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Company has a working capital deficiency of $11,988,219 and an accumulated deficit of $116,458,256. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

(signed) "BDO CANADA LLP"

Chartered Accountants

Vancouver, BC
June 21, 2013

Assets		February 28, 2013		February 29, 2012
Current Assets				
Cash and cash equivalents (Note 6)	$	129,126	$	6,731,818
Amounts receivable (Note 7)		576,375		2,388,887
Prepaid expenses		307,485		229,399
Inventory (Note 8)		66,859		61,546
Total current assets		1,079,845		9,411,650
Non-current assets				
Restricted cash		-		1,323,700
Reclamation deposits (Note 9)		2,730,800		2,230,800
Available for sale Investments		6,900		11,040
Exploration and evaluation assets (Note 12)		17,737,621		17,732,619
Mineral properties and deferred development costs (Note 11)		2,343,498		3,474,839
Property, plant and equipment (Note 10)		12,785,400		14,465,955
Total assets	$	36,684,064	$	48,650,603
Liabilities				
Current liabilities				
Trade and other payables (Note 14)	$	7,146,113	$	4,703,706
Due to related parties (Note 19)		1,303,464		422,692
Loan from director (Note 19)		749,482		-
Provision for site reclamation and closure (Note 15)		3,869,005		3,134,571
Convertible note (Note 16)		-		4,652,201
Total current liabilities		13,068,064		12,913,170
Non-current liabilities				
Provision for site reclamation and closure (Note 15)		1,062,494		3,304,761
Deferred tax liability (Note 26)		1,265,000		1,945,000
Total liabilities		15,395,558		18,162,931
Shareholders' equity				
Share capital (Note 17)		118,239,970		115,585,246
Contributed surplus (Note 18)		19,477,562		18,830,170
Share subscriptions received in advance		41,650		-
Accumulated other comprehensive income		(12,420)		(8,280)
Accumulated deficit		(116,458,256)		(103,919,464)
Total shareholders' equity		21,288,506		30,487,672
Total liabilities and shareholders' equity	$	36,684,064	$	48,650,603

The accompanying notes form an integral part of these consolidated financial statements

Approved on behalf of the board:

"J. Frank Callaghan" *"David McMillan"*

J. Frank Callaghan Director David McMillan Director

	February 28, 2013	February 29, 2012
Revenue (Note 21)	**$ 1,502,567**	$ 15,942,023
Cost of sales and direct costs (Note 8)	**(871,112)**	(10,941,760)
Gross Profit	**631,455**	5,000,263
Mine operating expense (Note 22)	**(4,373,358)**	(11,392,808)
Mine operating loss	**(3,741,903)**	(6,392,545)
Exploration (Note 23)	**4,585,978**	16,047,706
Corporate administration (Note 24)	**3,920,218**	8,380,418
	8,506,196	24,428,124
Loss from operations	**(12,248,099)**	(30,820,669)
Other income (expense):		
Finance expense (Note 25)	**(178,242)**	(1,295,580)
Loss on gold settlement	**(37,491)**	-
Impairment (Note 13)	**(1,755,862)**	-
Reversal of indemnity (Note 31)	**1,000,902**	-
Gain on derecognition of financial liability	-	1,634,601
Loss before income taxes	**(13,218,792)**	(30,481,648)
Income tax recovery (Note 26)	**680,000**	748,000
Net loss for the year	**(12,538,792)**	(29,733,648)
Other comprehensive loss		
Fair value of available for sale investment	**(4,140)**	(9,660)
Total Comprehensive loss for the year	**$ (12,542,932)**	$ (29,743,308)
Loss per common share, basic and diluted (Note 29)	**$ (0.12)**	$ (0.38)
Weighted average number of common shares outstanding	**108,464,971**	78,633,133

The accompanying notes form an integral part of these consolidated financial statements

	Shares Outstanding	Share Capital	Share-based payments reserve	Share subscriptions received in advance	Accumulated other comprehensive loss	Retained Earnings	Total Shareholders' Equity
Balance at March 1, 2011	**65,480,393**	**$ 76,485,825**	**$ 17,483,537**	**$ 283,500**	**$ 1,380**	**$ (74,185,816)**	**$ 20,068,426**
Loss for the period						(29,733,648)	(29,733,648)
Shares issued via private placement	28,648,731	20,368,583	2,234,785	(283,500)			22,319,868
Acquisition of mineral properties	900,846	1,340,700					1,340,700
Settlement of Bethlehem Resources (1996) Corporation Purchase Obligation	699,992	1,000,000					1,000,000
Stock options issued			5,114,821				5,114,821
Issue of shares on exercise of options	884,502	1,278,876	(555,506)				723,370
Issue of shares on exercise of warrants	10,053,700	15,111,262	(5,447,467)				9,663,795
Change in fair value of available for sale investment					(9,660)		(9,660)
Balance at February 29, 2012	**106,668,164**	**$ 115,585,246**	**$ 18,830,170**	**$ -**	**$ (8,280)**	**$ (103,919,464)**	**$ 30,487,672**
Balance at March 1, 2012	**106,668,164**	**$ 115,585,246**	**$ 18,830,170**	**$ -**	**$ (8,280)**	**$ (103,919,464)**	**$ 30,487,672**
Loss for the period						(12,538,792)	(12,538,792)
Settlement of Bethlehem Resources (1996) Corporation Purchase Obligation	543,478	500,000					500,000
Stock options issued			935,200				935,200
Issue of shares on exercise of options	89,500	152,098	(70,738)				81,360
Issue of shares on exercise of warrants	1,639,140	1,610,464	(217,070)				1,393,394
Issue of shares on conversion of convertible note	461,367	392,162					392,162
Share subscriptions received in advance				41,650			41,650
Change in fair value of available for sale investment					(4,140)		(4,140)
Balance at February 28, 2013	**109,401,649**	**$ 118,239,970**	**$ 19,477,562**	**$ 41,650**	**$ (12,420)**	**$ (116,458,256)**	**$ 21,288,506**

The accompanying notes form an intergral part of these condensed consolidated financial statements

	February 28, 2013	February 29, 2012
Cash flows from operating activities		
Loss for the year	**$ (12,538,792)**	$ (29,733,648)
Adjustments to reconcile loss to net cash used in operating activities		
Interest on related party loan	**31,319**	-
Depreciation (Note 10 & 11)	**1,801,361**	5,144,503
Stock-based compensation (Note 18)	**935,200**	5,114,821
Change in ARO liability estimate	**(1,575,551)**	3,214,571
Accretion expense - debt (Note 16)	**257,115**	939,000
Accretion expense - ARO (Note 15)	**67,717**	69,434
Gain on de-recognition of liabilities (note 20)	**-**	(1,634,601)
Loss on impairment of assets (Note 13)	**1,755,862**	-
Deferred tax recovery (Note 26)	**(680,000)**	(748,000)
Changes in non-cash working capital balances:		
Amounts receivable	**1,812,512**	(159,995)
Prepaid expenses	**(78,085)**	(35,074)
Trade and other payables	**2,942,407**	(3,194,273)
Inventory of ore	**(5,313)**	1,267,452
Cash used by operations	**(5,274,248)**	(19,755,810)
Income tax paid	**-**	-
Total cash outflows from operating activities	**(5,274,248)**	(19,755,810)
Cash flows from investing activities		
Reclamation deposits	**(499,998)**	(322,300)
Acquisition of property, plant and equipment (Note 10)	**(105,072)**	(594,775)
Disposition of property, plant and equipment (Note 10)	**-**	16,634
Acquisition of mineral properties and deferred development costs (Note 11)	**(640,254)**	-
Acquisition of exploration and evaluation assets (Note 12)	**(5,002)**	(5,544,150)
Release of restricted cash	**1,323,700**	446,800
Total cash inflows (outflows) from investing acitivites	**73,374**	(5,997,791)
Cash flows from financing activities		
Amounts advanced by related parties (Note 19)	**880,772**	396,162
Amounts received from related parties	**-**	2,400
Loan from director (note 19)	**718,162**	-
Issuance of capital stock	**1,474,752**	32,707,033
Share subscriptions received in advance	**41,650**	-
Repayment of long-term debt	**-**	(845,158)
Repayment of interest on convertible debt	**(223,609)**	(508,508)
Repayment of principal on convertible debt	**(4,293,545)**	(849,291)
Total cash inflows (outflows) from financing activities	**(1,401,818)**	30,902,638
Total increase (decrease) in cash during the year	**(6,602,692)**	5,149,037
Cash and cash equivalents at the beginning of the year (Note 6)	**6,731,818**	1,582,781
Cash and cash equivalents at the end of the year (Note 6)	**$ 129,126**	$ 6,731,818

The accompanying notes form an integral part of these consolidated financial statements

1. CORPORATE INFORMATION

The Company was incorporated on February 12, 1970 under the laws of the Province of British Columbia and is engaged in the production and sale of gold, and the exploration, development, and acquisition of mineral properties in British Columbia. The Company is listed on the TSX Venture Exchange, under the symbol BGM-V.

The address of the Company's corporate office and principal place of business is 1500-625 West Hastings Street, Vancouver, British Columbia, Canada.

The Company completed the purchase of the QR Mine & Mill and its associated assets on February 1, 2010 and has successfully refurbished the mill at the QR Mine. On November 16, 2010 the Company acquired the Bethlehem Resources (1996) Corporation with the intention of refurbishing and moving its Goldstream mill to Wells, B.C. subject to obtaining necessary permits and approvals.

The Company commenced commercial production of gold at its 100% owned QR Mine and Mill on October 1, 2010.

The Company ceased commercial production in December 2011 pending further exploration, permitting and renegotiation of its mining contract. In October 2012, the Company further refined existing reserves at the QR Mine. The Company obtained the required permits to mine Bonanza Ledge in December 2011. In July 2012, the Company obtained the required permits to mill Bonanza Ledge ore at the QR Mill and intends to complete the required financing to commence the development of its Bonanza Ledge property.

2. BASIS OF PREPARATION

a) Going Concern of Operations

These financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharge its liabilities in the ordinary course of business. On August 14, 2012 the Company was subject to a cease trade order "CTO" that has prevented management from raising additional debt and equity financing to meet its operational cash requirements. At February 28, 2013, the Company had accumulated losses of $116,458,256 (February 29, 2012: $103,919,464). The Company incurred losses of $12,542,932 during the year-ended February 28, 2013 (year ended February 29, 2012: $29,743,308) and had a working capital deficiency of $11,988,219 at February 28, 2013 (February 29, 2012 deficiency of $3,501,520). These conditions raise material uncertainty that may cast significant doubt as to the ability of the Company to continue operating as a going concern

The Company's continuing operations and its ability to discharge its liabilities and fulfill its commitments as they come due, is dependent upon the Company having continued support from Related Parties, and once the CTO has been lifted, to obtain debt or equity financing and, ultimately, on locating economically recoverable ore reserves in its mineral properties, and attaining and maintaining profitable operations at its QR Mill and Bonanza Ledge properties.

In order to have the CTO lifted, management has submitted an updated technical report on its Cariboo Gold Project and must now submit an application for revocation for the cease trade order to the British Columbia Securities Commission (the "BCSC"). The Company intends to complete this, and other filings, as required to have the CTO lifted. Management plans to complete the exploration and development of its mineral properties to ensure the Company can generate sustainable, long-term profitability, and obtain additional financing.

Management believes the Company will continue to have the support of related party lenders, and once the CTO has been lifted, will be successful at securing additional funding, for its exploration and development program. Then, it will be able to continue to operate as a going concern for the foreseeable future. There can, however, be no assurance that such plans will be successful.

If the Company does not receive the continued support of related party lenders, or is unable to obtain adequate additional financing, the Company will be required to curtail operations and exploration activities. Furthermore, failure to continue as a going concern would require restatement of assets and liabilities on a liquidation basis, which would differ significantly from the going concern basis.

2. BASIS OF PREPARATION (CONTINUED)

a) Going Concern of Operations (continued)

The underlying value and the recoverability of amounts shown for mineral properties is dependent upon the discovery of economically recoverable ore reserves in its mineral properties, the ability of the Company to obtain the necessary financing to complete development, confirmation of the Company's interest in the underlying mineral claims and leases and upon future profitable production from or the proceeds from the disposition of its mineral properties.

b) Statement of Compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") applicable to the preparation of these financial statements.

The financial statements were authorized for issue by the Board of Directors on June 24, 2013.

c) Basis of Measurement

The financial statements have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets.

The financial statements are presented in Canadian dollars ("CDN"), which is also the Company's functional currency.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Notes 4 and 5.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these financial statements and in preparing the opening IFRS Statement of Financial Position at March 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

a) Basis of Consolidation

The consolidated financial statements include Barkerville Gold Mines Ltd. and its subsidiaries as at February 28, 2013. Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those of the Company.

These consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries, including:

- Bethlehem Resources (1996) Corporation
- 0847423 BC Ltd.

The results of subsidiaries acquired or disposed during the year are included in the consolidated results of operations from their acquisition date to the date of disposal, as appropriate. All intercompany transactions and balances are eliminated on consolidation.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

b) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred is measured as the aggregate of the acquisition date fair values of assets acquired, liabilities incurred or assumed, and equity instruments issued by the Company in exchange for control of the acquiree. The acquisition date is the date at which the Company obtains control over the acquiree. Any costs directly attributable to the business combination are expensed as incurred, except if incurred in the issuance of debt or equity securities.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, *Business Combinations* ("IFRS 3") are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition is recognized as an asset and initially measured at cost, being the excess of cost of the acquisition over the Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If the Company's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the acquisition, the excess is recognized immediately in profit or loss.

The interest of non-controlling shareholders on acquisition is initially measured at the non-controlling shareholders proportion of the net fair value of the assets, liabilities and contingent liabilities recognized.

c) Cash and Cash Equivalents

Cash and cash equivalents consists of cash on hand, demand deposits with financial institutions, and cash held in trust by legal counsel, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts. Cash and cash equivalents do not include restricted cash.

d) Restricted Cash

Restricted cash consists of cash and deposits which are not available for use by the Company and therefore not considered highly liquid – such as cash set aside to cover rehabilitation obligations.

e) Revenue Recognition

Revenue from the sale of metals contained in concentrates is recognized when significant risks and rewards of ownership of the concentrates have been transferred to the customer in accordance with the agreements entered into between the Company and its customer, collection is reasonably assured and the price is reasonably determinable. Revenue from the sale of metals represents gross proceeds receivable from the customer. Revenue from metal sales is primarily from gold sales but also includes silver byproduct.

Contract terms for the Company's sale of gold and silver in concentrate ("metal concentrate") to third parties allow for price adjustment based on final assay results of the metal in concentrate by the customer to determine the final content. These are referred to as provisional pricing arrangements, and are such that the selling price for metal in concentrate is based on prevailing spot prices on a specified future date after shipment to the customer. Adjustments to the sales price arise due to movements in quoted market prices up to the date of final settlement. The period between provisional invoicing and final settlement generally takes less than 1 week.

Sales contracts for metal in concentrate that have provisional pricing features are considered to contain an embedded derivative, which is required to be separated from the host contract for accounting purposes. The host contract is the sale of metals in concentrate and the embedded derivative is the forward contract for which the provisional sale is subsequently adjusted. Recognition of sales revenue for these commodities is based on the most recently determined estimate of metal in concentrate (based on initial assay results) and the spot price at the date of shipment. The embedded derivative, which does not qualify for hedge accounting, is initially recognized at fair value, with subsequent changes in the fair value recognized in profit or loss each period until final settlement, and presented as part of Other Income. Changes in fair value over the quotation period and up until final settlement are estimated by reference to forward market prices for gold and silver.

Interest revenue is recognized as it is earned.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

f) Inventories

Gold bullion, gold in concentrate, metal in circuit and ore stockpiles are physically measured or estimated and valued at the lower of cost or net realizable value. Net realizable value is the estimated future sales price of the product the entity expects to realize when the product is processed and sold, less estimated costs to complete production and bring the product to sale. Where the time value of money is material, these future prices and costs to complete are discounted.

Cost is calculated by the cost method, comprising of direct purchase costs and an appropriate portion of fixed and variable overhead costs, including depreciation, depletion, and amortization, incurred in converting materials into finished goods.

Consumables are valued at the lower of cost or net realizable value. Any provision for obsolescence is determined by reference to specific items. A regular review is undertaken to determine the extent of any provision for obsolescence.

g) Exploration and Evaluation Properties, Mineral Properties and Deferred Development Costs

Pre-exploration Costs

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

Exploration and Evaluation Expenditures

Exploration expenditures are the costs incurred in the initial search for mineral deposits with economic potential or in the process of obtaining more information about existing mineral deposits. Exploration expenditures typically include costs associated with prospecting, sampling, mapping, drilling and other work involved in searching for minerals.

Evaluation expenditures are the costs incurred to establish the technical and commercial viability of developing mineral deposits identified through exploration activities or by acquisition. Evaluation expenditures include the cost of:

- (i) establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable reserve;
- (ii) determining the optimal methods of extraction and metallurgical and treatment processes;
- (iii) studies related to surveying, transportation, and infrastructure requirements;
- (iv) permitting activities; and
- (v) economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

License costs paid in connection with a right to explore in an existing exploration area are expensed as incurred.

Once the legal right to explore has been acquired, exploration and evaluation expenditure is charged to profit or loss as incurred, unless it is concluded that a future economic benefit is more likely than not to be realized.

In evaluating if expenditures meet the criteria to be capitalized, several different sources of information are utilized. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Exploration and evaluation expenditure incurred on a license where a 43-101 compliant resource has not yet been established is expensed as incurred until sufficient evaluation has occurred in order to establish a 43-101 compliant resource. Costs expensed during this phase are included in “exploration and evaluation expenditure” in the statement of comprehensive loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Exploration and Evaluation Properties, Mineral Properties and Deferred Development Costs (Continued)

Exploration and Evaluation Expenditures (Continued)

Exploration and evaluation assets acquired in a business combination are initially recognized at fair value. Similarly, the costs associated with acquiring an exploration and evaluation asset (that does not represent a business) are also capitalized. They are subsequently measured at cost less accumulated impairment.

Once 43-101 compliant reserves are established and development is sanctioned, exploration and evaluation assets are tested for impairment and transferred from "Exploration and Evaluation Assets" to "Mineral Properties and Deferred Development Costs" or "Property, Plant & Equipment" depending on the nature of the asset. No amortization is charged during the exploration and evaluation phase.

Mineral Properties and Deferred Development Costs

Subsequent to completion of a positive economic analysis on a mineral property, capitalized exploration and evaluation assets are transferred into mineral properties, as an intangible asset, or as an item of property, plant and equipment based on the nature of the underlying asset. Items of intangible assets and property plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses.

The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets (where relevant) borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

Following transfer of "Exploration and Evaluation Assets" into "Mineral Properties" within "Mineral Properties and Deferred Development Costs", all subsequent expenditure on the construction, installation or completion of infrastructure and mine facilities is capitalized within "Deferred Development Costs". Development expenditure is net of proceeds from the incidental sale of ore extracted during the development phase.

It is also necessary to incur costs to remove overburden and other mine waste materials (stripping costs) in order to access the ore body. During the development of a mine, stripping costs are capitalized to deferred development costs for the related mineral property.

When a mine construction project (included in deferred development costs) moves into the production stage, the capitalization of certain mine construction costs ceases and are either regarded as part of the cost of inventory or expenses, except for costs which qualify for capitalization relating to mining asset additions or improvements, underground/surface mine development or mineable reserve development.

During the productive phase of a mine, stripping costs are accounted for as variable production costs and included in the cost of inventory produced during the period except for stripping costs incurred to provide access to sources of reserves that will be produced in future periods and would not have otherwise been accessible, which are capitalized as development costs.

Management reviews the carrying value of capitalized mineral property and development costs for indicators of impairment. Subsequent recovery of the resulting carrying value depends on successful development or sale of the undeveloped project. If a project does not prove viable, all costs associated with the project are impaired to the project's recoverable amount.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

g) Exploration and Evaluation Properties, Mineral Properties and Deferred Development Costs (Continued)

Amortization and Depletion

Accumulated mine development costs are amortized/depleted on a unit of production basis over the economically recoverable reserves of the mine concerned, except in the case of assets whose useful life are shorter than the life of the mine, in which case the straight line method is applied. The unit of account for run-of-mine (ROM) costs is tonnes of ore extracted and processed. Rights and concessions are depleted on the unit of production basis over total reserves of the relevant area. The unit of production rate for the amortization/depletion takes into consideration expenditures to date, and future sanctioned expenditures.

Amortization, and depletion are either regarded as part of the cost of inventory or expensed through the statement of comprehensive loss.

Disposal

Gains and losses on disposal of an item within Exploration and Evaluation Properties, or Mineral Properties and Deferred Development Costs are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

h) Property, Plant and Equipment

Cost

Items of property plant and equipment are stated at cost, less accumulated depreciation and accumulated impairment losses. The initial cost of an asset comprises its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of the rehabilitation obligation, and for qualifying assets (where relevant) borrowing costs. The purchase price or construction cost is the aggregate amount paid and the fair value of any other consideration given to acquire the asset.

The cost of replacing or overhauling a component of plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied within the component will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced component is written off. Costs associated with routine repairs and maintenance of plant and equipment are expensed as incurred.

Depreciation

The carrying amounts of property, plant and equipment are depreciated using the diminishing balance method using the rates below. When parts of an item of plant and equipment have different useful lives, they are accounted for as separate items (or components) of plant and equipment.

Mining Plant & Equipment:	5%-50%
Office Furniture & Equipment:	20%

Depreciation methods and useful lives are reviewed at each annual reporting date and adjusted as appropriate.

Depreciation is either regarded as part of the cost of inventory or expensed through the statement of comprehensive loss.

Disposal

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Reclamation Deposits

Reclamation deposits are term deposits held on behalf of the Government of the Province of British Columbia (the "province") as collateral for possible reclamation activities on the Company's mineral properties in connection with permits required for exploration activities. As they are restricted from general use, they are excluded from current assets. Reclamation deposits are released, by the province, for general use on the property being restored to satisfactory condition after mining and exploration has ceased. Reclamation deposits are classified as loans and receivables.

j) Impairment of Non-Financial Assets

The Company assesses at each reporting date whether there is an indication that an asset (or cash-generating unit (CGU) may be impaired. Exploration and Evaluation assets are considered for impairment in light of the requirements of IFRS 6, and are not allocated to other CGUs. If any indication of impairment exists, or when annual impairment testing for an indefinite-lived asset (or CGU) is required, the Company estimates the asset's or CGU's recoverable amount. Recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use and is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the asset is tested as part of a larger CGU. Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset/CGU is considered impaired and is written down to its recoverable amount. In calculating value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset/CGU. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecasts, which are prepared separately for each of the Company's CGUs to which the individual assets are allocated. These budgets and forecast generally cover a period of 8 years.

Impairment losses of continuing operations, including impairment of inventories, are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the recoverable amount since the last impairment loss was recognized. The reversal is limited to the recoverable amount, which cannot exceed the carrying amount that would have been determined, net of depreciation/amortization, had no impairment loss been recognized for the asset/CGU in prior years. Such a reversal is recognized in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Financial Instruments

Initial recognition and measurement

Financial assets in the scope of IAS 39 Financial Instruments: Recognition and Measurement are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale financial assets, or derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss which do not include transaction costs.

Purchases or sales of financial assets that require delivery of assets in a time frame established by regulation or convention in the marketplace (regular way trades) are recognised on the trade date, which is the date that the Company commits to purchase or sell the asset.

The Company's financial assets include cash and short-term deposits, trade and other receivables, loans and other receivables, and quoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification, described below.

Financial Assets

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

Loans and Receivables

These assets 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. Loans and receivables are comprised of cash, restricted cash, short-term deposits, amounts receivable, and due from related parties. 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 the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-For-Sale Investments

Non-derivative financial assets not included in the above category 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 accumulated 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 reliably determined, available-for-sale investments are carried at cost.

Purchases and sales of available-for-sale financial assets are recognized on a trade date basis. 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.

k) Financial Instruments (Continued)

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

Initial recognition and measurement

Financial liabilities in the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bank overdrafts, loans and borrowings, financial guarantee contracts and derivative financial instruments.

Subsequent measurement

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, due to related parties, long-term debt, and the debt component of convertible note. 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.

Convertible Debt

The proceeds received on issue of the Company's convertible debt are allocated into their liability and equity components. The amount initially attributed to the debt component equals the discounted cash flows using a market rate of interest that would be payable on a similar debt instrument that does not include an option to convert. Subsequently, the debt component is accounted for as a financial liability measured at amortized cost until extinguishment on conversion or maturity of the debt. The remainder of the proceeds is allocated to the conversion option and is recognized in "contributed surplus" within shareholders' equity, net of income tax effects.

Financial liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include using recent arm's-length market transactions; reference to the current fair value of another instrument that is substantially the same; a discounted cash flow analysis or other valuation models.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 20 – Financial instruments and Risk Management.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

l) Provisions

General

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset, but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss, net of any reimbursements. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as finance cost in profit or loss.

Rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore mining and other operations in the period in which the obligation is incurred. The nature of these restoration activities includes dismantling and removing structures, rehabilitating mines and tailings dams, dismantling operating facilities, closure of plant and waste sites, and restoration, reclamation and re-vegetation of affected areas. The obligation generally arises when the asset is installed or the ground/environment is disturbed at the mining production location. When the liability is initially recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets to the extent that it was incurred by the development/construction of the mine. Any rehabilitation obligations that arise through the production of inventory are expensed as incurred. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability, and is included as a finance expense.

The periodic unwinding of the discount is recognized in profit or loss as a finance cost. Additional disturbances or changes in rehabilitation costs are recognized as additions or charges to the corresponding assets and rehabilitation liability when they occur. Costs related to restoration of site damage (subsequent to start of commercial production) which is created on an ongoing basis during production are provided for at their net present values and recognized in profit or loss as extraction progresses.

Any reduction in the rehabilitation liability and, therefore, any deduction from the asset to which it relates, may not exceed the carrying amount of that asset. If it does, any excess over the carrying value is taken immediately to profit or loss.

If the change in estimate results in an increase in the rehabilitation liability and, therefore, an addition to the carrying value of the asset, the Company considers whether this is an indication of impairment of the asset as a whole, and if so, tests for impairment in accordance with IAS 36. If, for mature mines, the revised mine asset net of rehabilitation provisions exceeds the recoverable value, that portion of the increase is charged directly to expense.

For closed sites, changes to estimated costs are recognized immediately in profit or loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

m) Contingencies

Due to the size, complexity and nature of the Company's operations, various legal and tax matters are outstanding from time to time. In the event that management's estimate of the future resolution of these matters changes, the Company will recognize the effects of the changes in the consolidated financial statements on the date such changes occur.

n) Income Taxes

Income tax expense comprises of current and deferred tax expense. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

o) Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants, flow-through shares, and residual equity component of convertible debt are classified as equity instruments.

When the Company issues units as part of a private placement, consisting of both common shares and common share purchase warrants, the fair value of the warrants is determined using the Black-Scholes pricing model, and the remaining value is assigned to the common shares.

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

Earnings (loss) Per Share

Basic earnings (loss) per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings (loss) per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding on a diluted basis. The weighted average number of shares outstanding on a diluted basis takes into account the additional shares for the assumed exercise of stock options and warrants and debt conversion, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercise were used to acquire common stock at the average market price during the reporting period. In a loss period, stock options and warrants are anti-dilutive.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o) Share Capital (continued)

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 consolidated statement of comprehensive income over the vesting period. Non-market 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 the market 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 consolidated statement of comprehensive income over the remaining vesting period.

Where equity instruments are granted to persons other than employees, the consolidated statement of comprehensive income is charged with the fair value of goods and services received. Where the fair value of the goods or services is not determinable, the fair value of the equity instruments granted is used.

When options are exercised, the proceeds received, together with any related amount in share-based payments reserve, are credited to share capital.

p) Recent accounting pronouncements issued but not yet implemented

The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ended February 28, 2013.

(a) 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. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

(b) IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess the full impact of IFRS 10 and will adopt the standard for the accounting period beginning on March 1, 2013.

(c) IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs. The Company is yet to assess the full impact of IFRS 13 and will adopt the standard for the accounting period beginning on March 1, 2013.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

p) Recent accounting pronouncements issued but not yet implemented (Continued)

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

In IFRIC 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the balance sheet. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. The Company is yet to assess the full impact of IFRIC 20 and will adopt the standard for the accounting period beginning on March 1, 2013.

There are no additional accounting standards not yet effective that would have an impact on the financial statements.

4. CRITICAL ACCOUNTING ESTIMATES

The Company makes estimates about the future that affect the reported amounts of assets and liabilities. Estimates 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.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

Information about critical accounting estimates 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) Provision for Site Reclamation and Closure

Provisions for Site Reclamation and Closure have been created based on Barkerville Gold Mines Ltd's management estimates. Assumptions, based on the current economic environment, have been made which management believes are a reasonable basis upon which to estimate the future liability as shown in note 15. These estimates take into account any material changes to the assumptions that occur when reviewed regularly by management. Estimates are reviewed annually and are based on current regulatory requirements. Significant changes in estimates of discount rate, contamination, restoration standards and techniques will result in changes to provisions from period to period. Actual reclamation and closure costs will ultimately depend on future market prices for the costs which will reflect the market condition at the time the costs are actually incurred. The final cost of the currently recognized rehabilitation provisions may be higher or lower than currently provided for.

4. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

ii) Mineral Reserves and Mineral Resource Estimates

Mineral reserves are estimates of the amount of ore that can be economically and legally extracted from the Company's mining properties. The Company estimates its mineral reserve and mineral resources based on information compiled by Qualified Persons as defined by Canadian Securities Administrators National Instrument 43-101 Standards for Disclosure of Mineral Projects. Such information includes geological data on the size, depth and shape of the mineral deposit, and requires complex geological judgments to interpret the data. The estimation of recoverable reserves is based upon factors such as estimates of commodity prices, future capital requirements, and production costs along with geological assumptions and judgments made in estimating the size and grade that comprise the mineral reserves. Changes in the mineral reserve or mineral resource estimates may impact upon the carrying value of exploration and evaluation assets, mineral properties, plant and equipment, provision for site reclamation and closure, recognition of deferred income tax assets and depreciation and amortization charges.

iii) Units of production depletion

Estimated recoverable reserves are used in determining the depreciation of mine specific assets. This results in depreciation charges proportional to the depletion of the anticipated remaining life of mine production. Each item's life, which is assessed annually, has regard to both its physical life limitations and to present assessments of economically recoverable reserves of the mine property at which the asset is located. These calculations require the use of estimates and assumptions, including the amount of recoverable reserves and estimate of future capital expenditure. Changes are accounted for prospectively.

iv) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward only to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

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 share 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 18.

vi) Acquisition Date Fair Values

Significant judgment is required in determining the acquisition date fair value in business and asset acquisitions. The consideration is measured at fair values of assets acquired, liabilities incurred or assumed and equity instruments issued by the Company in exchange for control. The fair value of the equity instruments issued requires determining the appropriate share price, valuation model and appropriate inputs such as volatility and market interest rates.

5. CRITICAL ACCOUNTING JUDGMENTS

The Company makes assumptions about the future that affect the reported amounts of assets and liabilities. 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 assumptions.

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) 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.

ii) Commencement of production

The Company assesses the stage of each mine under construction to determine when a mine moves into the production stage, being when the mine is substantially complete and ready for its intended use. The criteria used to assess the start date are determined based on the unique nature of each mine construction project, such as the complexity of a plant and its location. The Company considers various relevant criteria to assess when the production phases are considered to commence and all related amounts are reclassified from 'Mines under construction' to 'Producing mines' and 'Property, plant and equipment'. The principal criteria used includes, but are not limited to, the following:

- Level of capital expenditure incurred compared to the original construction cost estimate
- Completion of a reasonable period of testing of the mine plant and equipment
- Ability to produce metal in saleable form (within specification)
- Ability to sustain ongoing production of metal
- Ability to sustain ongoing profitable production

When a mine development / construction project moves into the production stage, the capitalization of certain mine deferred development costs ceases. Costs are either regarded as forming part of the cost of inventory or expensed. However, any costs relating to mining asset additions or improvements, underground mine development or mineable reserve development are assessed to determine whether capitalization is appropriate. It is also at this point that depreciation / amortization commences.

iii) Impairment of Property, Plant and Equipment, Mining Properties and Deferred Development Costs

Management considers both external and internal sources of information in determining if there are any indications that the Company's property, plant and equipment assets, mining properties and deferred development costs are impaired. External sources of information management consider include the market, economic, and legal environment in which the Company operates. Internal sources of information management considers include the manner in which the property, plant and equipment, mining properties and deferred development costs are being used or are expected to be used, and indication of economic performance of the assets. Management has used its judgment to determine the appropriate allocation of assets to a specific cash generating unit (CGU), for which it was determined that there are 3 CGUs (individual mining locations). These locations are the lowest level for which cash inflows are largely independent of those from other assets/CGUs. Exploration and Evaluation properties have not been included with other CGUs for assessment for impairment indicators. Further information on assumptions and estimates used in the Company's impairment assessment are given in Note 13.

iv) Contingencies

By their nature, contingencies will only be resolved when one or more uncertain future events occur or fail to occur. The assessment of the existence, and potential quantum, of contingencies inherently involves the exercise of significant judgment and the use of estimates regarding the outcome of future events.

6. CASH AND CASH EQUIVALENTS

	February 28, 2013	February 29, 2012
Cash at banks and on hand	$ 129,126	$ 439,325
Short-term deposits	-	1,240,000
Cash held in trust by legal counsel	-	5,052,493
Total cash and cash equivalents	**$ 129,126**	**$ 6,731,818**

Cash and cash equivalents consists of cash on hand, demand deposits with financial institutions, and cash held in trust by legal counsel, and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value. Cash at banks and on hand earns interest at floating rates based on daily bank deposit rates.

Amounts held in trust by legal counsel related to funds received in relation to the private placement which closed in three tranches between December 2011 and January 2012. The funds were released to the Company as accounts payable became due.

7. ACCOUNTS RECEIVABLE

The accounts receivable for the Company is comprised of the following:

	February 28, 2013	February 29, 2012
Trade accounts receivable	$ 325,111	$ 512,205
HST refundable	137,465	1,564,594
Other receivable	113,799	312,088
Total accounts receivable	$ 576,375	$ 2,388,887

Trade receivables are non-interest bearing and are generally on terms of 30 to 90 days. There are no past due receivables at February 28, 2013 (2012: nil).

8. INVENTORY, COST OF SALES AND DIRECT COST

	February 28, 2013	February 29, 2012
Consumables	$ 66,859	$ 61,546

The cost of sales and direct costs on the statement of comprehensive loss is comprised of the following:

	Year ended February 28, 2013	Year ended February 29, 2012
Mining and Processing Costs	$ 114,654	$ 3,834,669
Depletion (Note 11)	239,733	3,329,117
Depreciation (Note 10)	334,903	1,671,687
General and Administrative Costs	174,135	615,835
NSR Royalty	13,000	223,000
Change in inventory	(5,313)	1,267,452
Cost of Sales and Direct Costs	$ 871,112	$ 10,941,760

Amortization and depletion associated with production of inventory is included in cost of sales in the statement of operations when related inventory is sold. There have been no write-downs of the carrying value of inventory during the year (2012: $nil).

9. RECLAMATION DEPOSITS

The Company is required to make reclamation deposits in respect of its expected site reclamation and closure obligations. The reclamation deposits represent collateral for possible reclamation activities necessary on mineral properties in connection with the permits required for exploration activities by the Company. As at February 28, 2013, the Company had cash deposits of $2,730,800 (2012: $2,230,800) and pledged equipment of $807,700 (2012: $807,700) for these obligations.

In December 2011, the Company received a M-238 Permit from the British Columbia Provincial Government to develop an open pit gold mine at the Bonanza Ledge section of the Cariboo Gold Project. As at February 28, 2013, the Company had total deposits of $335,000 (2012: $335,000) for this property. The Company is further required to deposit additional reclamation bonds of $11,465,000 to total $11,800,000 to the government as follows:

(i) Deposit $665,000 within 30 days of start of construction;
(ii) Deposit $4,400,000 on or before September 15, 2012;
(iii) Deposit $2,000,000 on or before September 30, 2013;
(iv) Deposit $1,500,000 on or before September 15, 2013;
(v) Deposit $1,500,000 on or before September 15, 2014;
(vi) Deposit $1,400,000 on or before September 15, 2015;

As at February 28, 2013, the Company had not commenced construction or mining operations permitted in December 2011. Therefore deposits are not yet required to be paid to the ministry. Mining of Bonanza Ledge is anticipated to commence in 2014, at which time the relevant reclamation deposits will need to be advanced.

In July 2012, the Company received an amendment to the M-198 Permit from the British Columbia Provincial Government to mill Bonanza Ledge and Dome Mountain ores at the Quesnel River Mine and Mill facility. As at February 28, 2013, the Company had a total deposit of $2,052,300 plus pledged equipment of $807,700 (2012: deposit of $1,552,300 plus pledged equipment of $807,700) for this permit. The Company will be required to deposit additional reclamation bond of $7,390,000 to total $10,250,000 to the government as follows:

(i) Deposit $1,750,000 within 30 days of the start of milling;
(ii) Deposit $1,500,000 on or before September 30, 2012;
(iii) Deposit $4,140,000 on or before December 15, 2012.

If the construction of the tailings dam raise to elevation 1029.3 meter were completed to the satisfaction of the Government of British Columbia by September 30, 2012, the Company would not be required to post the $1,500,000. If the implementation and work for the tailings dam seepage was completed to the satisfaction of the government by December 15, 2012, the Company would not be required to post additional security of $4,140,000. The Company commenced work on the tailings dam seepage. The Company is waiting for an independent report and is expecting to have the $4,140,000 waived.

As at February 28, 2013, the Company has not yet started milling and is not yet required to pay $1,750,000. Milling is expected to take place in the fiscal year ending February 28, 2014. The Company has raised the tailings dam to elevation 1029.3 meters and is waiting for the completion of an independent report verifying this in order to receive the Government of British Columbia's approval to waive this requirement.

10. PROPERTY, PLANT AND EQUIPMENT

	Mining plant & equipment	Office furniture & equipment	Total
Cost			
Balance at March 1, 2011	$ 17,007,640	631,982	17,639,622
Additions for the year	561,152	33,623	594,775
Disposals for the year	(15,869)	(765)	(16,634)
Balance at February 29, 2012	17,552,923	664,840	18,217,763
Additions for the year	96,561	8,512	105,073
Balance at February 28, 2013	$ 17,649,484	$ 673,352	$ 18,322,836
Depreciation and impairment losses			
Balance at March 1, 2011	$ 1,675,077	$ 261,345	$ 1,936,422
Depreciation for the year	1,745,694	71,239	1,816,933
Disposals for the year	(1,547)	-	(1,547)
Balance at February 29, 2012	3,419,224	332,584	3,751,808
Depreciation for the year	1,498,811	62,817	1,561,628
Impairment for the year (note 13)	224,000	-	224,000
Balance at February 28, 2013	$ 5,142,035	$ 395,401	$ 5,537,436
Carrying amounts			
At March 1, 2011	$ 15,332,563	$ 370,637	$ 15,703,200
At February 29, 2012	$ 14,133,699	$ 332,256	$ 14,465,955
At February 28, 2013	$ 12,507,449	$ 277,951	$ 12,785,400

As part of the convertible debt entered into August 2010, the Company had pledged as collateral, all personal property, assets and undertakings to the bond holders of the convertible debt. This pledge was removed upon payment of the debenture on August 27, 2012.

As at February 28, 2013, $807,700 (2012: $807,700) worth of property, plant and equipment is pledged as collateral for the reclamation deposits (see Note 9). In addition, all property, plant and equipment are pledged as security for the portion of the due to the related party that arises from the partial revocation of Cease Trade Order (see Note 19).

During the year ended February 28, 2013 the Company recognized $334,903 (2012: $1,671,687) of amortization on its property, plant and equipment associated with the QR Mill in cost of sales and direct costs (Note 8).

The Goldstream Mill is a custom mineral processing plant fully permitted in its current location and is presently on care and maintenance. The facility has a name-plated milling capacity of 1,360 tonnes per day and residue from such operations can be accommodated in the adjacent tailings pond and surrounding properties. The Goldstream mill facility is currently under care and maintenance. No amortization has been charged during the period to February 28, 2013 (2012: $Nil) (note 13).

11. MINERAL PROPERTIES AND DEFERRED DEVELOPMENT COSTS

	MINERAL PROPERTIES	DEFERRED DEVELOPMENT COSTS	TOTAL
Cost			
Balance at March 1, 2011	$ 5,275,301	$ 3,747,277	$ 9,022,578
Additions for the year	-	-	-
Balance at February 29, 2012	5,275,301	3,747,277	9,022,578
Additions for the year	-	640,254	640,254
Balance at February 28, 2013	$ 5,275,301	$ 4,387,531	$ 9,662,832
Depletion and impairment losses			
Balance at March 1, 2011	$ 1,058,131	$ 1,160,491	$ 2,218,622
Depletion for the year	1,587,762	1,741,355	3,329,117
Balance at February 29, 2012	2,645,893	2,901,846	5,547,739
Depletion for the year	114,336	125,397	239,733
Impairment for the year	656,525	875,337	1,531,862
Balance at February 28, 2013	$ 3,416,754	$ 3,902,580	$ 7,319,334
Carrying amounts			
At March 1, 2011	$ 4,217,170	$ 2,586,786	$ 6,803,956
At February 29, 2012	$ 2,629,408	$ 845,431	$ 3,474,839
At February 28, 2013	$ 1,858,547	$ 484,951	$ 2,343,498

All mineral properties and deferred development costs are pledged as security for the portion of the due to the related party that arises from the partial revocation of Cease Trade Order (see Note 19).

11. MINERAL PROPERTIES AND DEFERRED DEVELOPMENT COSTS (CONTINUED)

Quesnel River Mine:

The Quesnel River Mine ("QR") is an underground mine located near Quesnel River in British Columbia. During the year ended February 28, 2013 the Company incurred $155,303 (2012: $nil) of deferred development costs. Deferred mine development costs are amortized over the Company's initial estimate of the life of mine (LOM), and transferred to income using the unit of production method.

The mining lease at the QR Mine site is subject to a 5% net operating profits royalty, a 1% net smelter return royalty (NSR), and a 2% net profit royalty. Should a deposit of one million proven recoverable ounces of gold be discovered on the property, the property is subject to a 50% back-in interest in return for reimbursing the Company for double the amount of expenditures incurred and by completing a bankable feasibility study.

Depletion of mineral resources and mine development costs of $239,733 (2012: $3,329,117) was included in cost of sales and direct costs (note 8).

Bonanza Ledge:

The Bonanza Ledge deposit is a gold deposit on the southwest flank of Barkerville Mountain, within the Cariboo Gold Project, about 2 km northwest of the Barkerville Historic Town site. During fiscal 2010 the company obtained a NI 43-101 compliant Technical report and Pre-Feasibility Study of the Bonanza Ledge Deposit and as such costs associated with the acquisition of the project have been transferred from Exploration & Evaluation to Mineral Properties, on March 1, 2010. The carrying amount at February 28, 2013 was $1,858,547.

In December 2011 the Company received a M-238 Permit from the British Columbia provincial government to develop an open pit gold mine at the Bonanza Ledge section of the Cariboo Gold Project. As at February 28, 2013, the Company had not commenced construction or mining operations. Therefore the reclamation deposits were not required to be paid (see Note 9). Construction is planned in the fiscal year ending February 28, 2014.

During the year ended February 28, 2013 the Company incurred $484,951 (2012: $nil) of deferred development costs.

Bethleham Resource (1996):

On November 16th 2010, the Company completed the acquisition of all the issued and outstanding shares of Bethlehem Resources (1996) Corporation, a private B.C. company from International Bethlehem Mining Corporation (IBMC). The purchase includes the Goldstream mill facility, tailings pond, and related mineral leases and claims which are located in the Revelstoke mining division, British Columbia.

The Company agreed to pay IMBC total consideration of $3,300,000, consisting of an aggregate cash payment in the amount of $1,300,000 and $2,000,000 of fully paid common shares of the Company, payable or issuable as follows:

- $50,000 to be paid as a non-refundable deposit to secure the negotiations under the LOI upon execution of the LOI (paid);
- $200,000 to be paid as a non-refundable cash payment and due diligence fee, upon execution of the LOI, (paid);
- $500,000 worth of common shares of Barkerville upon the Closing Date of the Transaction (issued);
- $250,000 to be paid, and issue $500,000 worth of common shares of the Company upon the 6 month anniversary of the Closing Date for the Transaction (paid and issued);
- $250,000 to be paid, and issue $500,000 worth of common shares of Barkerville upon the 12 month anniversary of the Closing Date for the Transaction (paid and issued);
- $550,000 to be paid, and issue $500,000 worth of common shares of Barkerville upon the 18 month anniversary of the Closing Date for the Transaction (paid and issued); and

11. MINERAL PROPERTIES AND DEFERRED DEVELOPMENT COSTS (CONTINUED)

Due to the payment of consideration on the acquisition being deferred, the Company has determined that the fair value of the consideration granted was $2,942,000, taking into account the time value of money, using a market rate of interest of 15%. Interest and finance charges were $51,154 during the year ended February 28, 2013 and $235,846 during the year ended February 29, 2012. The amounts payable to IBMC are as follows:

	2013	2012
Amounts payable and other accrued liabilities	$ -	$ 998,846
	$ -	$ 998,846

12. EXPLORATION & EVALUATION ASSETS

	Wayside Property	Cariboo Gold Project	Bethlehem	Total
Cost				
Balance at March 1, 2011	$ 1	$ 10,709,591	$ 138,177	$ 10,847,769
Additions	-	6,884,850	-	6,884,850
Disposals	-	-	-	-
Balance at February 29, 2012	1	17,594,441	138,177	17,732,619
Additions	-	5,002	-	5,002
Disposals	-	-	-	-
Balance at February 28, 2013	$ 1	$ 17,599,443	$ 138,177	$ 17,737,621
Carrying amounts				
At March 1, 2011	$ 1	$ 10,709,591	$ 138,177	$ 10,847,769
At February 29, 2012	$ 1	$ 17,594,441	$ 138,177	$ 17,732,619
At February 28, 2013	$ 1	$ 17,599,443	$ 138,177	$ 17,737,621

All exploration and evaluation assets are pledged as security for the portion of the due to the related party that arises from the partial revocation of Cease Trade Order.

Wayside property:

As at February 28, 2013, the Company holds a 100% interest in the Wayside property, consisting of certain mineral claims and leases located in the Lillooet Mining Division, British Columbia. If the property commences commercial production, the Company will be required to issue shares equal in value to $480,000 to the party from whom it was initially acquired.

12. EXPLORATION & EVALUATION ASSETS (CONTINUED)

Cariboo Gold Project:

The Company has an interest in the mineral rights to 254 contiguous mineral tenures totaling 117,442 hectares in the Cariboo Mining District near Wells, British Columbia. The Company currently maintains these mineral claims at an approximate cost of $900,000 per annum. The Company also pays taxes on 2,419 hectares of Crown Grant Mineral Claims which is contained within the 117,442 hectare Cariboo Gold Project claim group.

During the year ended February 29, 2012, pursuant to a sale and purchase agreement for the purchase of the Cariboo Gold Project dated April 2009, 338,346 common shares for $450,000 (2011: 535,714 common shares for $600,000) at a price per share equal to the closing price of such shares on the TSX Venture Exchange on the day preceding the date of issuance of such shares.

During the year ended February 29, 2012, the Company issued, pursuant to a sale and purchase agreement dated May 5, 2011, 412,500 common shares for $660,000 and $500,000 cash to acquire the Myrtle-Proserpine and the Promise properties within the Cariboo Gold Project. The Myrtle-Proserpine Property is subject to a 3% net smelter return royalty (NSR).

During the year ended February 29, 2012, the Company issued, pursuant to a sale and purchase agreement dated August 17, 2011, 100,000 common shares for $153,000 to acquire the remaining 40% interest in the Craze Creek Property within the Cariboo Gold Project. This property is subject to a 3.5% net smelter return royalty (NSR).

During the year ended February 29, 2012, the Company issued, pursuant to a sale and purchase agreement dated August 18, 2011, 30,000 common shares for $46,500 and $10,000 cash to acquire the Antler Creek Property within the Cariboo Gold Project. This property is subject to a 1% net smelter return royalty (NSR).

During the year ended February 29, 2012, the Company issued, pursuant to a sale and purchase agreement dated August 26, 2011, 20,000 common shares for $31,200 and $26,000 cash to acquire the Roundtop Mountain Property within the Cariboo Gold Project. This property is subject to a 2% net smelter return royalty (NSR).

The Company's interest in the Cariboo Gold Project provides that if the Company can extract a bulk sample of not more than 40,000 tons from the Cariboo Gold Quartz property, a NSR royalty of 5% is payable. The 2003 agreement, as amended, also provides that the Company's interest in the Properties was subject to a further 3% NSR royalty and a collective 10% net profit interest. On January 20, 2011, the Company completed the acquisition of the collective 10% net profit interest royalty by issuing an aggregate of 250,000 shares at an issue price of $1.34 per share. During the year ended February 29, 2012 the Company acquired the 3% NSR royalty and the remaining undivided 50% interest in the Cariboo Gold Quartz Property for consideration of $5,000,000.

Bethlehem:

On November 16, 2010 the Company completed the acquisition of all the issued and outstanding shares of Bethlehem Resources (1996) Corporation, a private B.C. company, from International Bethlehem Mining Corporation (IBMC). The asset purchase includes the Goldstream mill facility, tailings pond, and related mineral leases and claims which are located in the Revelstoke mining division, British Columbia.

Certain mineral claims are subject to either a 25% net profit royalty, or a 2.5% net smelter return royalty and a 12.5 % net profit royalty, at the election of the holder of the royalty interest.

13. IMPAIRMENT OF NON-FINANCIAL ASSETS

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The recoverable amount is determined based on value in use and/or fair value less cost to sell calculations. The calculation of the fair value in use requires the estimation of future cash flows and the choice of a discount rate in order to calculate the present value of the cash flows. Actual outcomes may vary.

In assessing whether the carrying value of an asset or CGU is impaired, its carrying value is compared with its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell (FVLCS) and value in use (VIU). Given the nature of the Company's activities, information on the fair value of an asset is usually difficult to obtain unless negotiations with potential purchasers or similar transactions are taking place. Consequently, unless indicated otherwise, the recoverable amount used in assessing the impairment charges described below is FVLCS. Management has determined that there are three cash generating units: 1. the QR Mine; 2. The QR Mill and Bonanza Ledge; and 3. The Goldstream Mining Plant. The carrying value of the cash generating units, prior to 2013 impairment provisions was $1,531,862, $11,740,947, and $3,334,000 respectively.

1. QR Mine

The Company has identified indicators of impairment with respect to its QR Mine CGU, related to the current interruption of mining operations, recurring losses from operations and ongoing reliance on external funding to sustain operations. In accordance with IAS 36, Impairment of Assets, management has tested the Company's long-lived assets within this CGU for impairment as at February 28, 2013, and determined the carrying value exceeded the recoverable amount, resulting in an impairment charge of $1,531,862 at that date.

The calculation of the recoverable amount for the QR Mine is most sensitive to the following assumptions:

- Expected Gold Grade
- Short-term Gold prices
- Gold bearing ore

Significant assumptions applied in the discounted cash flow model used to determine the recoverable amount of the QR Mine CGU are as follows: grade 5 g/t; short-term gold prices of $1,400 per oz, and a gold bearing ore of 15,000 tonnes.

2. The QR Mill and Bonanza Ledge

The Company is developing Bonanza Ledge for planned production in the fiscal year ending February 28, 2014 and prepared discounted cash flows to determine the value in use of the CGU. In accordance with IAS 36, Impairment of Assets, management calculated the recoverable amount of the CGU to be $12,800,000 which exceeds the carrying value by $1,060,000. As the recoverable amount of the long-lived assets within this CGU exceeds the carrying amount as at February 28, 2013, no impairment charge has been recognized.

The calculation of value in use is most sensitive to the following assumptions:

- Metal Prices
- Ore Grade
- Gold Milling Recovery Rates
- Foreign Exchange Rates
- Discount Rate

Significant assumptions applied in the discounted cash flow model used to determine the recoverable amount of the QR Mill and Bonanza Ledge CGU are as follows: short term gold price of $1,400 per oz (2012: $1,600), future long-term average gold price of $1,520 per oz, (2012: $1,600 per oz), average ore grade of 0.267 oz per ton (2012: 0.2640 oz per ton); gold milling recovery rate of 90% (2012: 93%) , and a CND – USD exchange rate of $0.98:$1.00 (2012: $1.00:$1.00).

13. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

If any one of the following changes were made to the above key assumptions, the carrying amount and recoverable amount would be equal.

	Short-term Gold Price	Long-Term Average Gold Price	Gold Milling Recovery Rate	Foreign Exchange Rate
Increase/(Decrease)	(4.2%)	(4.2%)	(2.9%)	2.9%

The future cash flows are adjusted for risks specific to the asset and discounted using a pre-tax discount rate of 9%-10% (2012: 9% - 10%).

2. Goldstream Mining Plant

On February 28, 2013 the Company determined that impairment indicators existed for the Goldstream mining plant following a decline in scrap steel prices. Management determined, by obtaining an independent valuation, the fair value less costs to sell for the Goldstream mining plant as at February 28, 2013 was $3,110,000. The fair value less costs to sell was determined using an orderly liquidation value approach, with consideration of mining equipment value trends, commodity price and construction cost changes, and steel scrap price trends.

As the fair value less costs to sell was less than the carrying amount of $3,334,000 an impairment loss of $224,000 was recognized in the statement of comprehensive loss for the year.

14. TRADE AND OTHER PAYABLES

The trade and other payables of the company consist of the following:

	February 28, 2013	February 29, 2012
Trade payables	$ 6,277,590	$ 1,651,145
Canada Revenue Agency - provision for Part XII.6 tax (Note 31)	227,173	565,183
Canada Revenue Agency – provision for indemnity on flow-through shares (Note 31)	-	1,046,224
Balance payable on acquisition of International Bethlehem (1996) Corporation (Note 11)	-	998,846
Payroll related liabilities	173,253	36,514
Other payables	468,097	405,794
Total trade and other payables	$ 7,146,113	$ 4,703,706

15. PROVISIONS FOR SITE RECLAMATION AND CLOSURE

Provincial laws and regulations concerning environmental protection affect the Company's exploration and operations. Under current regulations, the Company is required to meet performance standards to minimize environmental impact from its activities and to perform site restoration and other closure activities. The Company's provision for future site closure and reclamation costs is based on known requirements. It is not currently possible to estimate the impact on operating results, if any, of future legislative or regulatory developments.

The Company's best estimate of the environmental rehabilitation provision arising from its activities at the Cariboo Gold Project, Quesnel River Mine and Bethlehem Resources at February 28, 2013 was $4,931,499 (February 29, 2012 - $6,439,332). This best estimate was based upon a February 28, 2013 undiscounted future cost of $5,072,394 (February 29, 2012 - $6,647,754), an annual inflation rate of 1.98% and risk adjusted discount rate of 10%. The closure and reclamation expenditure is expected to be incurred in various stages up to 2021.

The amounts used during the year ended February 28, 2013 were mostly related to raising the tailings pond at the QR mine and the amount in excess of provision was charged to operations as reclamation expenses. As at February 28, 2013, the Company has substantially completed raising the tailings pond and was at an early stage of assessing the leaks in the dam.

There is a substantial uncertainty related to the cost of implementation of the mitigation plan related to uncertainty about applicable water quality, the engineering scope and cost of mitigation required to meet the standards and responsibilities for the financial liability. As such, outcomes that are unfavorable could result in material additional liability.

Balance, March 1, 2011	$	3,155,327
Change in liability estimate		3,214,571
Accretion		69,434
Balance, February 29, 2012	$	6,439,332
Accretion		67,718
Addition		37,000
Amounts used		(1,612,551)
Balance, February 28, 2013	$	4,931,499
Current portion	$	3,869,005
Long term portion	$	1,062,494

16. CONVERTIBLE NOTE

On August 28, 2010, the Company raised a total of $5,535,000 from the issuance of $5,535,000 of senior secured convertible notes (the "Notes") and 6,509,160 common share purchase warrants (the "Warrants"). The Notes are for a two-year term and bear interest at an annual rate of 10% per year. Interest is payable quarterly in arrears, commencing November 30, 2010. The Notes are convertible at the option of the holder (the "Noteholder") into common shares of the Company (the "Shares"), at any time after 18 months from the date of issuance for a conversion price of $0.85 per Share. In the event of a change of control of the Company, the Noteholders will have the option to have their Notes redeemed by the Company. The Notes may be redeemed for cash at the option of the Company at any time after 6 months from the date of issuance, without penalty or premium. So long as any Notes remain outstanding, the Company may not undertake any further debt financings without prior approval of 66 2/3% of the Noteholders outstanding at that time.

The Notes were issued pursuant to a trust indenture among the Company, 0847423 B.C. Ltd, and Computershare Trust Company of Canada. The Company has granted a charge against the QR Mining Lease, subject to permitted obligations and liabilities, to collateralize its obligations under the Notes.

As part of the convertible note a sinking fund was required to be paid when the Company has free-cash flows. The amount of the payments is 25% of free-cash flows. During the years ended February 28, 2013 and February 29, 2012, the Company did not pay any sinking fund payments.

The Warrants are exercisable for a period of 2 years from the date of issuance at a price of $0.85 per share. If, after four months and one day after closing, the volume weighted average trading price of the Company's shares, for a period of 20 consecutive trading days exceeds $2.00, the Company may within five days after such event, provide notice to the warrant holders of the early expiry of the warrants, the Warrants will expire 30 days from such notice.

The warrants had hold periods expiring December 28, 2010 in accordance with applicable securities legislation.

As at February 29, 2012, an aggregate of 5,363,480 common shares would be issuable upon conversion of the Notes should the note holders choose to convert.

On the transaction date, the fair value of the debt component of the Notes was estimated at $4,738,000. The Company allocated the fair value of the Notes to the debt component by discounting the future cash flows at a market rate of interest on debt without a conversion factor of 20%. The difference between the fair value of the Notes and the amount allocated to the debt component was allocated to the equity component. The difference of $797,000 was charged to equity.

The debt has been designated as an “other liability” and is recorded at amortized cost and is accreted over an expected life of 24 months, using the effective interest rate method.

During the year ended February 28, 2013, $4,293,545 in notes were repaid and other convertible note holders exercised the right to convert $392,162 (2012 - $nil) in convertible notes to 461,367 common shares.

The movement of the debt portion of the convertible debentures during the year comprised of the following:

	February 28, 2013	February 29, 2012
Balance, beginning of year	$ 4,652,201	$5,071,000
Accretion	257,115	939,000
Conversion of notes for common shares	(392,162)	-
Repayment of principal	(4,293,545)	(849,291)
Repayment of interest	(223,609)	(508,508)
Balance, end of year	$ nil	$4,652,201
Classified as		
Current	-	**$4,652,201**
Non-Current	-	**-**
	-	**$4,652,201**

17. SHARE CAPITAL AND RESERVES

a) Common Shares

The Company is authorized to issue an unlimited number of common shares without par value.

The holders of common shares are entitled to receive dividends which are declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

During the year ended February 28, 2013.

1. The Company issued 543,478 common shares, with a fair value of $500,000 for final share-based consideration for the acquisition of Bethlehem Resources (1996) Corporation (note 11).

2. The Company issued 89,500 common shares for proceeds of $81,360 relating to stock options exercised.

3. The Company issued 1,646,140 common shares for proceeds of $1,400,893 relating to warrants that were exercised.

4. The Company issued 461,367 common shares upon conversion of $392,162 in convertible notes.

During the year ended February 29, 2012.

1. The Company completed a private placement of 28,648,731 units at a price of $0.85 per unit for gross proceeds of $24,351,421. Of the 28,648,731 units, 26,075,825 units were a brokered private placement for gross proceeds of $22,164,451 and 2,572,906 units were a non-brokered private placement for gross proceeds of $2,186,970 each unit consisted of one common share and one half of one common share purchase warrant. Each whole warrant entitles the holder to purchase a further common share for $1.10 for a period of one and a half years. The agents were paid a fee of $1,551,512, representing 7% of the gross proceeds raised in the brokered portion of the private placement, and issued 2,607,582 broker warrants equal to 10% of the units issued in the brokered portion of the private placement. All broker warrants are exercisable to purchase one common share at $0.85 for a period of two years. The Company also paid a total of $196,542 in legal fees relating to the private placement.

   The fair value of the 14,324,368 common share purchase warrants was determined using the Black-Scholes pricing model using the following assumptions: a risk free rate of 0.94%-1.04%, volatility of 55.22%-57.09%, an expected life of one and a half years and with no dividends being paid. The fair value attributable to the warrants was $1,778,618. The fair value attributed to the 2,607,582 broker warrants was determined using the Black-Scholes pricing model using the following assumptions: a risk free rate of 0.94%-1.04%, volatility of 55.22%-57.09%, an expected life of one and a half years and with no dividends being paid. The fair value attributed to the broker warrants was $456,167.

2. The Company issued 900,846 common shares, with a fair value of $1,340,700, for the purchase of mineral properties. The common shares were issued at various dates. On April 8, 2011, 338,346 common shares, with a fair value of $450,000, were issued. On June 1, 2011, 412,500 common shares, with a fair value of $660,000, were issued. On August 31, 2011, 130,000 common shares, with a fair value of $199,500 were issued. On September 1, 2011, 20,000 common shares, with a fair value of $31,200 were issued. Given that these exploration and evaluation assets have not reached a stage at which information is sufficient to estimate future cash flows themselves, these share based payment transactions were valued using the fair value of the equity instruments granted. The shares were fair valued on the date of the issuance.

3. The Company issued 699,992 common shares, with a fair value of $1,000,000 for the remainder of the acquisition of Bethlehem Resources (1996) Corporation.

4. The Company issued 884,502 common shares for proceeds of $723,370 relating to stock options exercised. An additional 10,053,700 common shares were issued for proceeds of $9,663,795 relating to warrants that were exercised.

5. During the year ended February 29, 2012, the Company issued 283,500 common shares for the exercise of warrants for which $283,500 was received during the year ended February 29, 2012.

17. SHARE CAPITAL AND RESERVES (CONTINUED)

a) Share Purchase Warrants

The following is a summary of changes in warrants from March 1, 2011 to February 28, 2013:

	Number of Warrants	Weighted average exercise price per warrant
Balance as at March 1, 2011	15,020,306	$ 0.92
Issue of warrants	17,521,132	1.06
Exercised warrants	(10,053,700)	0.96
Expired	(192,308)	1.30
Balance as at February 29, 2012	22,295,430	$ 1.01
Issue of warrants	-	-
Exercised warrants	(1,659,640)	0.85
Expired	(4,172,840)	0.85
Balance February 28, 2013	16,426,950	$ 1.07

As at February 28, 2013, the Company had outstanding share purchase warrants as follows:

Expiry Date	Exercise Price	Outstanding and exercisable
June 22, 2013	$1.10	10,791,258
July 17, 2013	$1.10	3,203,073
July 20, 2013	$1.10	325,037
Balance, February 28, 2013		**14,319,368**

As at February 28, 2013, the Company had outstanding broker warrants as follows:

Expiry Date	Exercise Price	Outstanding and exercisable
June 22, 2013	$0.85	1,978,431
July 17, 2013	$0.85	64,144
July 20, 2013	$0.85	65,007
Balance, February 28, 2013		**2,107,582**

17. SHARE CAPITAL AND RESERVES (CONTINUED)

b) Nature and Purpose of Equity and Reserves

The reserves recorded in equity on the Company's balance sheet include 'Share-based payments reserves', "Accumulated other comprehensive loss" and "Accumulated deficit".

"Contributed surplus" is used to recognize the value of stock option grants and share warrants prior to exercise, along with the equity component of convertible debt.

"Accumulated other comprehensive income (loss)" comprises an available-for-sale reserve. This reserve is used to recognize fair value changes on available-for-sale investments.

"Accumulated deficit" is used to record the Company's change in deficit from earnings from period to period.

"Subscription receivables" is used to record cash received for shares that have not yet been issued.

18. SHARE-BASED PAYMENTS

a) Option Plan Details

The Company has an incentive Stock Option Plan ("the Plan") under which non-transferable options to purchase common shares of the Company may be granted to directors, officers, employees or service providers of the Company. The terms of the Plan provide that the Directors have the right to grant options to acquire common shares of the Company at not less than the closing market price of the shares on the day preceding the grant at terms of up to five years. No amounts are paid or payable by the recipient on receipt of the option, and the options granted are not dependent on any performance-based criteria. In accordance with the Plan, the vesting of options is at the complete discretion of the Board other than in respect of any particular options granted to a service provider who is performing Investor Relations Activities, which will vest in stages over twelve months with no more than one quarter (1/4) of such option vesting in any three month period.

18. SHARE-BASED PAYMENTS (CONTINUED)

a) Option Plan Details

The following is a summary of changes in options from March 1, 2011 to February 28, 2013:

	Number of options	Weighted average exercise price per share
Balance, March 1, 2011	**6,147,483**	**$0.91**
Granted	5,221,951	$1.17
Exercised	(884,500)	$0.82
Cancelled/Expired	(487,500)	$1.46
Balance, February 29, 2012	**9,997,434**	**$1.03**
Granted	1,234,980	$0.89
Exercised	(89,500)	$0.91
Cancelled/Expired	(986,057)	$1.12
Balance, February 28, 2013	**10,156,857**	**$1.02**

18. SHARE-BASED PAYMENTS (CONTINUED)

a) Option Plan Details (Continued)

A summary of the Company's options at February 28, 2013 are presented as follow:

Grant Date	Expiry Date	Exercise Price	Opening Balance	During the Year			Closing Balance	Vested and Exercisable	Weighted Average Remaining Life (Years)
				Granted	Exercised	Forfeited/ Expired			
11/16/2007	11/16/2012	$0.26	26,057	-	-	(26,057)	-	-	-
04/16/2009	04/16/2014	$0.45	1,138,661	-	(10,000)	-	1,128,661	1,128,661	1.13
07/17/2009	07/17/2014	$0.38	66,266	-	-	-	66,266	66,266	1.38
08/28/2009	08/28/2014	$0.60	456,306	-	-	-	456,306	456,306	1.50
09/18/2009	09/18/2014	$0.62	78,287	-	-	-	78,287	78,287	1.55
10/29/2009	10/29/2014	$1.25	596,490	-	-	(20,000)	576,490	576,490	1.67
02/02/2010	02/02/2015	$1.00	1,879,208	-	-	(10,000)	1,869,208	1,869,208	1.93
09/27/2010	09/27/2015	$1.16	310,947	-	-	(25,000)	285,947	285,947	2.58
11/26/2010	11/26/2015	$1.42	578,261	-	-	(10,000)	568,261	568,261	2.74
04/01/2011	04/01/2016	$1.22	342,456	-	(18,500)	(10,000)	313,956	313,956	3.09
06/20/2011	06/20/2016	$1.66	550,790	-	-	(15,000)	535,790	535,790	3.31
07/22/2011	07/22/2016	$1.66	626,205	-	-	(20,000)	606,205	606,205	3.40
08/12/2011	08/12/2016	$1.52	317,500	-	-	-	317,500	317,500	3.45
02/01/2012	02/01/2017	$0.89	3,030,000	-	(61,000)	(245,000)	2,724,000	2,724,000	3.93
03/9/2012	03/9/2017	$0.85	-	600,000	-	(600,000)	-	-	-
06/19/2012	06/19/2017	$0.50	-	250,000	-	-	250,000	250,000	4.31
06/29/2012	06/29/2017	$1.21	-	384,980	-	(5,000)	379,980	379,980	4.33
			9,997,434	1,234,980	(89,500)	(986,057)	10,156,857	10,156,857	2.79

18. SHARE-BASED PAYMENTS (CONTINUED)

a) Option Plan Details (Continued)

A summary of the Company's options at February 29, 2012 are presented as follow:

Grant Date	Expiry Date	Exercise Price	Opening Balance	During the Year			Closing Balance	Vested and Exercisable	Weighted Average Remaining Life (Years)
				Granted	Exercised	Forfeited			
11/16/2007	11/16/2012	$0.26	38,557	-	(12,500)	-	26,057	26,057	0.72
04/16/2009	04/16/2014	$0.45	1,510,661	-	(372,000)	-	1,138,661	1,138,661	2.13
07/17/2009	07/17/2014	$0.38	66,266	-	-	-	66,266	66,266	2.38
08/28/2009	08/28/2014	$0.60	456,306	-	-	-	456,306	456,306	2.5
09/18/2009	09/18/2014	$0.62	128,287	-	(50,000)	-	78,287	78,287	2.55
10/29/2009	10/29/2014	$1.25	616,490	-	(20,000)	-	596,490	596,490	2.67
02/02/2010	02/02/2015	$1.00	1,979,208	-	(100,000)	-	1,879,208	1,879,208	2.93
09/27/2010	09/27/2015	$1.16	650,947	-	(265,000)	(75,000)	310,947	310,947	3.58
11/26/2010	11/26/2015	$1.42	700,761	-	(50,000)	(72,500)	578,261	578,261	3.74
04/01/2011	04/01/2016	$1.22	-	437,456	(15,000)	(80,000)	342,456	342,456	4.09
06/20/2011	06/20/2016	$1.66	-	710,790	-	(160,000)	550,790	550,790	4.31
07/22/2011	07/22/2016	$1.66	-	676,205	-	(50,000)	626,205	626,205	4.40
08/12/2011	08/12/2016	$1.52	-	367,500	-	(50,000)	317,500	317,500	4.45
02/01/2012	02/01/2017	$0.89	-	3,030,000	-	-	3,030,000	3,030,000	4.93
			6,147,483	5,221,951	(884,500)	(487,500)	9,997,434	9,997,434	3.72

The weighted average share price at the time the options were exercised during the year was $1.12 (2012 - $1.57).

During the year-ended February 28, 2013, the Company made share-based payments to employees of $935,200 (2012: $5,114,503), as follows:

On March 9, 2012, the Company granted stock options under its Stock Option Plan to an officer exercisable for up to 600,000 shares of the Company, with an estimated fair value of $393,200 on the grant date (see Note 18(b)). The options are exercisable on or before March 9, 2017 at a price of $0.85 per share.

On June 19, 2012, the Company granted stock options under its Stock Option Plan to a director exercisable for up to 250,000 shares of the Company, with an estimated fair value of $129,000 on the grant date (see Note 18(b)). The options are exercisable on or before June 19, 2017 at a price of $0.50 per share.

On June 29, 2012, the Company granted stock options under its Stock Option Plan to directors, officers, employees, and service providers exercisable for up to 384,980 shares of the Company, with an estimated fair value of $413,000 on the grant date (see Note 18(b)). The options are exercisable on or before June 29, 2017 at a price of $1.21 per share.

18. SHARE-BASED PAYMENTS (CONTINUED)

a) Option Plan Details (Continued)

During the year-ended February 29, 2012, the Company made share-based payments to employees as follows:

On April 1, 2011, the Company granted stock options under its Stock Option Plan to directors, officers, employees, and service providers exercisable for up to 437,456 shares of the Company, with an estimated fair value of $451,695 on the grant date. The options are exercisable on or before April 1, 2016 at a price of $1.22 per share.

On June 20, 2011, the Company granted stock options under its Stock Option Plan to directors, officers, employees, and service providers exercisable for up to 710,790 shares of the Company, with an estimated fair value of $993,237 on the grant date. The options are exercisable on or before June 20, 2016 at a price of $1.66 per share.

On July 22, 2011, the Company granted stock options under its Stock Option Plan to directors, officers, employees, and service providers exercisable for up to 676,205 shares of the Company, with an estimated fair value of $944,416 on the grant date. The options are exercisable on or before July 22, 2016 at a price of $1.66 per share.

On August 12, 2011, the Company granted stock options under its Stock Option Plan to directors, officers, employees, and service providers exercisable for up to 367,500 shares of the Company, with an estimated fair value of $468,767 on the grant date. The options are exercisable on or before August 12, 2016 at a price of $1.52 per share.

On February 1, 2012, the Company granted stock options under its Stock Option Plan to directors, officers, employees, and service providers exercisable for up to 3,030,000 shares of the Company, with an estimated fair value of $2,256,706 on the grant date. The options are exercisable on or before February 1, 2017 at a price of $0.89 per share.

b) Fair Value of Options Issued During the Year

The weighted average fair value at grant date of options granted during the year ended February 28, 2013 was $0.76 per option (year-ended February 28, 2012: $0.98).

Options Issued to Directors, Officers, Employees and Consultants

The fair value at grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the expected life until exercise.

18. SHARE-BASED PAYMENTS (CONTINUED)

b) Fair Value of Options Issued During the Year (Continued)

Options Issued to Non-Employees

Options issued to non-employees, are measured based on the fair value of the goods or services received at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably, the options are measured by determining the fair value of the options granted, using a valuation model. There were no options issued to non-employees during the year ended February 28, 2013.

The model inputs for options granted during the years ended February 28, 2013 and February 29, 2012 included:

Year Granted	Share Price at Grant Date	Exercise Price	Risk-Free Interest Rate	Expected Life	Volatility Factor	Dividend Yield
2013	$0.58-$1.21	$0.50-$1.21	2.550%-2.730%	5 years	136.54%-138.77%	0%
2012	$0.89-$1.66	$0.89-$1.66	1.350%-2.715%	5 years	123.09%-124.34%	0%

The expected price volatility is based on the historic volatility (based on the remaining life of the options), adjusted for any expected changes to future volatility due to publicly available information. The risk-free interest rate assumptions are based on the Bank of Canada marketable bond rate with a remaining term equal to the stock options' expected life.

19. RELATED PARTY TRANSACTIONS

The following is a summary of the Company's related party transactions during the period:

a) Exploration costs

Costs of $716,077 (year-ended February 29, 2012: $6,451,711), incurred in connection with the Company's exploration costs, were paid to a Company controlled by a director.

b) Deferred development costs

Costs of $316,318 (year-ended February 29, 2012: $nil), incurred in connection with the Company's deferred development costs, were paid to a Company controlled by a director.

c) Reclamation costs

Costs of $490,065 (year-ended February 29, 2012: $nil), incurred in connection with the Company's reclamation work at the QR Mine and Mill, were paid to a Company controlled by a director.

d) Administration fees

Administration fees of $76,939 (year-ended February 29, 2012: $96,000), incurred in connection with the Company's above-noted exploration, deferred development and reclamation costs, were paid to a Company controlled by a director.

e) Legal Fees

Legal fees of $4,832 (year-ended February 29, 2012: $298,428), incurred in connection with the Company's financings as well as general corporate matters, were paid to a law firm of which one partner was a director of the Company.

f) Building acquisition

The Company acquired a building for a purchase price of $nil (year-ended February 29, 2012: $80,000) from a Company controlled by a director.

19. RELATED PARTY TRANSACTIONS (CONTINUED)

g) Key Management Compensation

Key management personnel compensation comprised:

	February 28, 2013	February 29, 2012
Short term employee benefits and director fees	$ 562,081	$ 397,000
Share-based payments	650,900	3,056,448
	$ 1,212,981	**$ 3,453,448**

h) Balance payable:

The amounts payable to related parties, are summarized as follows:

	February 28, 2013	February 29, 2012
Due to other companies with certain common directors	$ 1,225,855	$ 355,787
Other amounts due to directors	77,609	66,905
Total due to related parties	1,303,464	422,692
Add: loan from director	749,482	-
	$ 2,052,946	**$ 422,692**

At February 28, 2013, the balance payable to companies with certain common directors relates primarily to ongoing exploration, reclamation and deferred development costs incurred by the Company. Amounts payable will be paid in a subsequent period. The balance is payable on demand, is interest free, unsecured and on normal commercial terms.

The other amounts due to director relates primarily to balances incurred prior to approval of the partial revocation of the Cease Trade Order (the "PRO"). These amounts will be paid in a subsequent period. The balance is payable on demand, is interest free, unsecured and on normal commercial terms.

The loan from director arises as a result of the PRO the Company received on December 5, 2012. The Company received approval for the PRO to allow the Company's CEO to loan the Company up to $2.44 million to be used toward payment of outstanding accounts payable and for costs associated with the NI43-101 Technical Report (the "Loan"). As at February 28, 2013, the Company has borrowed $749,482 from the Company's CEO by means of the PRO. Amounts payable to the Company's CEO from the PRO bear interest at 20% per annum with all such interest to be payable in full to the lender on repayment of the principal, which shall be on the date which is six months from the date of any such loan. The interest rate shall be reduced to 10% after one year should any Loan remain outstanding for a period of one year from the date of advancement. During the year, a total of $31,320 in interest has been accrued, all of which is outstanding as at February 28, 2013. The loan is collateralized by all of the Company's presently owned and after acquired or held personal property, assets and undertakings. All terms on the Loan were determined to reflect terms that would be appropriate for a similar loan with a non-related party for an entity under similar circumstances.

A director was reimbursed for corporate administration and exploration expenditures incurred on behalf of the Company for $435,514 during the year ended February 28, 2013 (2012: $1,381,562).

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous periods unless otherwise stated in this note.

Principal financial instruments

The principal financial instruments used by the Company, from which financial instrument risk arises, are as follows:

	Financial Assets at fair value through profit or loss		Loans and Receivables		Available for Sale	
	2013	2012	2013	2012	2013	2012
Cash and cash equivalents	$ 129,126	$ 6,731,818	-	-	-	-
Amounts receivable	-	-	$ 576,375	$ 2,388,887	-	-
Restricted cash	-	$1,323,700	-	-	-	-
Available for sale investments	-	-	-	-	$ 6,900	$ 11,040
Reclamation deposits			$2,730,800	$2,230,800	-	-
Total Financial Assets	$ 129,126	$ 8,055,518	$ 3,307,175	$ 4,619,687	$ 6,900	$ 11,040

	Financial liabilities at amortized cost	
	2013	2012
Trade and other payables	$ 7,146,113	$ 4,703,706
Due to related parties	2,052,946	422,692
Convertible note	-	4,652,201
Total Financial Liabilities	9,199,059	9,778,599

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

General Objectives, Policies and Processes:

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.

The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

a) Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices are comprised of four types of risk: foreign currency risk, interest rate risk, commodity price risk and equity price risk.

Foreign Currency Risk:

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and US dollar or other foreign currencies will affect the Company's operations and financial results. The company does not have significant exposure to foreign exchange rate fluctuation.

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 does not have any borrowings at variable rates. Interest rate risk is limited to potential decreases on the interest rate offers on cash and cash equivalents held with chartered Canadian financial institutions. The Company considers this risk to be immaterial.

Commodity Price Risk:

The Company is subject to commodity price risk for all the principal metals that are recovered from the concentrates that it produces. These include gold and silver. These metal prices are subject to numerous factors beyond the control of the Company including central bank sales, producer hedging activities, interest rates, exchange rates, inflation and deflation, global and regional supply and demand, and political and economic conditions in major producing countries throughout the world. The Company has elected not to actively manage its exposure to metal prices at this time.

Equity Price Risk:

Equity risk is the uncertainty associated with the valuation of assets arising from changes in equity markets. The Company is exposed to this risk through its equity holdings. The available-for-sale investment in the common shares of Lions Gate Energy Inc. is monitored by Management with decisions on sale taken at Board level. A 10% decrease in the fair value of Lions Gate Energy would have a nominal impact on equity.

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

b) Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents, reclamation deposits and amounts receivable. Cash and cash equivalents are maintained with financial institutions of reputable credit and may be redeemed upon demand. The reclamation bonds are maintained with financial institutions by the Province and can be released upon the Company fulfilling its reclamation obligations.

The Company's maximum exposure to credit risk at the reporting date is the carrying value of its cash and cash equivalents of $129,126 (2012 - $6,731,818), reclamation deposits $2,730,000 (2012 – 2,230,800), and amounts receivable of $576,375 (2012 – $2,388,887).

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

The Company ensures that it has sufficient cash on demand to meet short term expected operational expenses. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on exploration projects to further manage expenditure.

The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable.

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities as at February 28, 2013:

	Book Value at February 28, 2013	Within 1 Year	2 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	$7,146,113	$7,146,113	-	-	$7,146,113
Due to related parties	$2,052,946	$2,052,946	-	-	$2,052,946
Total	$9,199,059	$9,199,059	-	-	$9,199,059

	Book Value at February 29, 2012	Within 1 Year	2 to 5 years	Over 5 years	Total
Accounts payable and accrued liabilities	$4,703,706	$4,703,706	-	-	$4,703,706
Due to related parties	$422,692	$422,692	-	-	$422,692
Convertible note	$4,652,201	$4,685,709	-	-	$4,685,709
Total	$9,778,599	$9,778,599	-	-	$9,778,599

20. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

Determination of Fair Value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying amounts for cash and cash equivalents, amounts receivable, trade and other payables, due to related parties, and convertible debt approximate fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

Fair Value Hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair Value Measurements at February 28, using:					
	Level 1		Level 2		Level 3	
	2013	2012	2013	2012	2013	2012
Financial Assets						
Available for sale investments	$ 6,900	$ 11,040	-	-	-	-
			-			
	$ 6,900	$ 11,040	$ -	$ -	$ -	$ -

The available-for-sale investment is based on quoted prices and is therefore considered to be Level 1.

Derecognition of financial liabilities

During the year-ended February 29, 2012, the Company entered into a settlement agreement with a supplier to derecognize an amount payable of $1,643,601. The Company did not enter any such settlements in the year ended February 28, 2013.

21. REVENUE

Included in revenue for the year ended February 28, 2013 is $860,545 (net of $369,322 in refining costs) from the sale of gold generated through the cleanup of carbon pellets that were used Carbon in Pulp (CIP) and Carbon In Leach (CIL) circuits at the QR Mill & Mine. This cleanup was conducted as part of a larger refurbishment at QR in preparation for mining and milling of remaining mineable reserves at the QR West Zone.

22. MINE OPERATING EXPENSE

Mine Operating Expense for the Company consists of the following components by nature:

		February 28, 2013		February 29, 2012
Consulting fees	$	104,514	$	158,151
Depreciation		1,084,064		-
Employee salaries and benefits		978,560		2,058,528
Office and administration		472,367		1,102,621
QR mine management expenses		-		1,047,687
Repairs and maintenance		416,265		3,191,609
Reclamation provision		1,082,177		3,134,571
Utilities		235,411		699,641
Total mine operating expense	$	4,373,358	$	11,392,808

23. EXPLORATION

Exploration for the Company consists of the following components by nature:

		February 28, 2013		February 29, 2012
Administration fees	$	61,011	$	91,976
Assaying		475,676		606,650
Assessment and tax		86,794		160,119
Consulting fees		1,047,723		607,664
Depreciation		83,795		75,655
Environmental		243,563		679,809
Equipment and rentals		291,259		2,229,720
Exploration		1,694,380		10,143,040
Land fees and permitting		543,057		1,282,391
Reclamation provision		-		80,000
Travel		58,720		90,682
Total exploration	$	4,585,978	$	16,047,706

24. CORPORATE ADMINISTRATION

Corporate administration for the Company consists of the following components by nature:

		February 28, 2013		February 29, 2012
Consulting fees	$	148,723	$	92,896
Depreciation		58,867		69,591
Employee salaries and benefits		781,556		608,817
Legal, audit & accounting		1,162,875		749,759
Office and administration		92,510		287,882
Shareholder communications and advertising		331,333		774,793
Other corporate administration costs		199,563		256,569
Share-based payments		935,200		5,114,821
Travel and entertainment		209,591		425,290
Total corporate administration	$	3,920,218	$	8,380,418

25. FINANCE EXPENSE

The finance expense for the Company is comprised of the following:

		February 28, 2013		February 29,2012
Accretion on provision for site reclamation and closure	$	67,718	$	69,434
Bank charges, interest and commissions		(146,591)		287,146
Interest and accretion on convertible debt (Note 16)		257,115		939,000
Total finance expense	$	178,242	$	1,295,580

Included in bank charges, interest and commissions for the year ended February 28, 2013 were $338,010 in reversals of penalties and interest accrued in previous fiscal years (year ended February 29, 2012 - $nil). These penalties and interest resulted from a Canada Revenue Agency audit of the Canadian exploration expenditures incurred by the Company that were renounced on certain flow-through shares issued for taxation years 2000 through 2006 (see note 31).

26. DEFERRED INCOME TAXES

The reconciliation of income tax provision computed at statutory rates to the reported income tax provision is as follows:

		2013		2012
Net loss before taxes		(13,218,792)		(30,481,648)
Income taxed at local statutory rates - 25.00% (2012 - 26.25%)		(3,305,000)		(8,001,000)
Non-deductible expenses - stock based compensation		234,000		1,343,000
Non-deductible expenses - other		(330,000)		155,000
Effect of reduction in statutory rates		-		312,000
Share issue cost		-		(437,000)
Impact of BCMETC claimed		763,000		295,000
Other		(38,000)		(109,000)
Unrecognized deferred tax assets		1,996,000		5,694,000
Deferred income tax recovery	$	(680,000)	$	(748,000)

26. DEFERRED INCOME TAXES (CONTINUED)

Effective January 1, 2013, the Canadian Federal corporate tax rate and the British Columbia provincial tax rate remained at 15% and 10% respectively.

The significant components of the Company's estimated deferred tax assets and liabilities are as follows:

	2013	2012
	25.00%	25.00%
Deferred income tax assets:		
Losses carried forward	7,991,000	5,107,000
Mineral properties and property, plant and equipment	9,456,000	9,786,000
Un-deducted financing costs	374,000	560,000
Asset retirement obligation and other	1,278,000	1,650,000
Unrecognized deferred tax assets	(19,099,000)	(17,103,000)
Total deferred income tax assets	-	-
Deferred income tax liabilities:		
Fair value adjustment on business combination	(1,265,000)	(1,937,000)
Equity portion of conversion feature	-	(8,000)
Total deferred income tax liabilities	$ (1,265,000)	$ (1,945,000)

As at February 28, 2013, the Company has operating loss carry forwards for income tax purposes of approximately $31,964,000 that expire at various dates to 2033.

Year of Expiry	
2025	$ 116,000
2026	923,000
2027	4,770,000
2028	1,702,000
2029	4,020,000
2030	3,894,000
2031	5,435,000
2032	3,430,000
2033	7,674,000
	$ 31,964,000

27. CAPITAL MANAGEMENT

The company monitors its cash, common shares, warrants, stock options, and convertible debt as capital. The Company's objectives when maintaining capital are to maintain a sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development and production of the business. There were no changes in the Company's approach to capital management during the year.

The Company was previously restricted from any further debt financing without prior approval of 66 2/3% of the convertible debt note holders. Following the repayment of the convertible note holders (see note 16), the Company is no longer subject to this restriction.

The Company is currently subject to a cease-trade-order ("CTO") which restricts the ability to obtain additional financing to meet the Company's short-term obligations. Other than the restriction due to the CTO, the company is not exposed to any externally imposed capital requirements.

The Company's capital consists of the following:

		February 28, 2013		February 29, 2012
Convertible note	$	-	$	4,652,201
Less cash & cash equivalents		129,126		6,731,818
		(129,126)		(2,079,617)
Share capital		118,239,970		115,585,246
Contributed surplus		19,477,562		18,830,170
Shares received in advance		41,650		-
Accumulated other comprehensive income		(12,420)		(8,280)
Accumulated Deficit		(116,458,256)		(103,919,464)
Capital and net debt	$	21,159,380	$	28,408,055

28. SEGMENTED REPORTING

An operating segment is defined as a component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are reviewed regularly by the Company's chief operating decision maker, and for which discrete financial information is available. The Company has determined that it has one reportable operating segment, the acquisition, exploration, development and production of gold mineral properties, all of which occurs within Canada. The Company's corporate head office earns nominal revenue that are considered incidental to the activities of the Company and therefore does not meet the definition of an operating segment. The Company's revenue is derived through a refining agreement with a single refiner.

29. LOSS PER SHARE

Basic loss per share is calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year.

29. LOSS PER SHARE (CONTINUED)

	2013	2012
Loss attributed to ordinary shareholders	**12,538,792**	29,733,648
Weighted average number of common shares	**108,464,971**	78,633,133
Basic and diluted loss per share	**$ 0.12**	$ 0.38
Weighted Average Number of Common Shares		
Issued Common Shares at March 1	**106,668,164**	65,480,393
Effect on the conversion of options	**56,740**	504,042
Effect on the conversion of warrants	**994,130**	6,712,098
Effect of shares issued for asset acquisition	**428,826**	1,045,388
Effect of shares issued for private placements	**-**	4,891,212
Effect of conversion of convertible notes	**317,111**	-
	108,464,971	78,633,133

As at February 28, 2013 there are 10,156,857 options (2012 – 9,997,434), 14,319,368 share purchase warrants (2012-19,687,848), and 2,107,582 broker warrants (2012 – 2,607,582) which are exercisable. The effect of shares issuable on the exercise of options, share purchase warrants, and broker warrants are anti-dilutive because the Company recognized losses during the years ended February 28, 2013 and February 29, 2012.

30. RECLASSIFICATION WITHIN CONSOLIDATED COMPREHENSIVE LOSS

As the Company continues the transition from an exploration and evaluation stage Company to production, Management has assessed the presentation of the Company's statement of comprehensive loss. As a result of the assessment certain amounts reported for prior years in the Consolidated Statement of Comprehensive Loss and Notes to the Consolidated Financial Statements have been changed to better reflect the function of the expenditure incurred.

Amounts were reclassified from the previous presentation in order to provide users of the financial statements with more useful information for decision making purposes. Management is of the opinion that these costs are directly related to mining operations and, in order for the readers to better understand the performance of the Company's mining operation, it is more appropriate for the Company to classify these costs as Mine Operating Expenses on the Consolidated Statement of Comprehensive Loss. These changes primarily relate to reclassification of mining related overhead and site management expenses to a new line item called "mine operating expenses" and introduces "mine operating loss".

Previously, these costs were being reported as corporate administration, exploration, repairs and maintenance, or reclamation provision within Consolidated Statement of Comprehensive Loss.

30. RECLASSIFICATION WITHIN CONSOLIDATED COMPREHENSIVE LOSS (CONTINUED)

The impact to the expense classifications within Consolidated Statement of Comprehensive Loss for the year ended February 29, 2012 is as follows:

		As previously reported	Reclassifications	As presented
Revenues		$ 15,942,023	$ -	$ 15,942,023
Cost of sales and direct costs		(10,941,760)	-	(10,941,760)
Gross Profit		5,000,263	-	5,000,263
Mine operating expense		-	(11,392,808)	(11,392,808)
Mine operating loss	(iv)	-	(6,392,545)	(6,392,545)
Corporate administration	(i)	11,754,043	(3,373,625)	8,380,418
Exploration	(ii)	17,517,708	(1,470,002)	16,047,706
Repairs and maintenance	(iii)	3,334,610	(3,334,610)	-
Reclamation provision	(iii)	3,214,571	(3,214,571)	-
		(35,820,932)	(11,392,808)	24,428,124
Loss from operations		(30,820,669)	-	(30,820,669)

(i) Reclassified from Corporate Administration is $3,373,625 principally related to office, salaries and consulting and freight incurred by a mining company contracted to manage the QR mine and mill facility on the Company's behalf;

(ii) Reclassified from Exploration is $1,470,002 largely related to QR mine management expenses and utilities;

(iii) Repairs and maintenance and reclamation provision expenditures have been reclassified to the function they directly relate. $3,334,610 and $3,214,571 has been reclassified from repairs and maintenance and reclamation provisions respectively, to mine operating expenses;

(iv) Mine operating loss reflects the total loss from operations at the Company's mining operations, after allocation of directly attributable overhead costs.

31. CONTINGENT LIABILITIES

The Canada Revenue Agency ("CRA") audited the Canadian exploration expenses ("CEE) incurred by the Company in its 2000 through 2006 taxation years and issued certain Part XII.6 tax Notices of Assessment (NOA) to the Company in February, 2010. The NOA detailed the amounts of Part XII.6 tax and related penalties payable by the Company based on CRA's determination of the CEE incurred by the Company in the "look-back" year of the various flow-through share issuances by the Company. The Company filed Notices of Objection to the Part XII.6 tax NOA and recognized a provision for Part XII.6 tax and related penalties (see note 14). As at February 28, 2013, based on expected reduced reassessments from CRA in response to the Notices of Objective filed by the Company, the Part XII.6 tax and penalties payable has been reduced to $227,173 (February 29, 2012: $565,183). Subsequent to February 28, 2013, in response to the Notices of Objection filed by the Company, the Company received a $349,189 refund of the Part XII.6 tax and penalties amount previously paid by the Company.

In addition, the Company understands that the CRA also issued Notices of Reassessment to a number of persons who had acquired flow-through shares of the Company in 2003 pursuant to flow-through share agreements entered into with the Company. Under the flow-through share agreements, the Company committed to spend the flow-through share proceeds on qualifying CEE and to indemnify the holders of such shares for certain costs payable by the flow-through shareholders in the event the Company failed to make the required exploration expenditures. The Company had previously recognized a provision for the indemnity of flow through investors of $1,046,224. Through the Part XII.6 tax Notice of Objection process, the CRA acknowledged that the Company had incurred sufficient CEE to renounce to the 2003 flow-through share investors who were previously reassessed by CRA. As a result, the provision for the indemnity of flow-through share investors has been removed.