Barkerville Gold Mines Ltd.

Consolidated Financial Statements

February 28, 2014

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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. and its subsidiaries, which comprise the consolidated statement of financial position as at February 28, 2014 and February 28, 2013, and the consolidated statement of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years ended February 28, 2014 and February 28, 2013, 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 audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the 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. and its subsidiaries as at February 28, 2014 and February 28, 2013 and its financial performance and its cash flows for the years ended February 28, 2014 and February 28, 2013 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 had accumulated losses of $129,162,213, incurred losses of $12,703,957 during the year ending February 28, 2014 and had a working capital deficiency of $17,973,355 at February 28, 2014. 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, British Columbia
June 30, 2014

Barkerville Gold Mines Ltd.

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Barkerville Gold Mines Ltd.

Consolidated Statement of Financial Position

As at February 28, 2014

Assets		February 28, 2014		February 28, 2013
Current Assets				
Cash	$	352,275	$	129,126
Amounts receivable		169,683		576,375
Prepaid expenses (Note 6)		243,748		307,485
Inventory (Note 7)		1,725,760		66,859
Total current assets		2,491,466		1,079,845
Reclamation deposits (Note 8)		2,730,800		2,730,800
Available for sale investments		3,450		6,900
Exploration and evaluation assets (Note 11)		17,780,224		17,737,621
Mineral properties and deferred development costs (Note 10)		10,097,056		2,343,498
Property, plant and equipment (Notes 8 and 9)		11,619,218		12,785,400
Total assets	$	44,722,214	$	36,684,064

Liabilities				
Current liabilities				
Trade and other payables (Note 13)	$	9,954,356	$	7,146,113
Due to related parties (Note 17)		20,321		1,303,464
Loan from director (Note 17)		627,933		749,482
Provision for site reclamation and closure (Note 14)		3,754,808		3,869,005
Gold loan facility (Note 15)		6,107,403		-
Total current liabilities		20,464,821		13,068,064
Provision for site reclamation and closure (Note 14)		1,956,923		1,062,494
Gold loan facility (Note 15)		6,845,346		-
Deferred tax liability (Note 23)		1,159,000		1,265,000
Total liabilities		30,426,090		15,395,558
Shareholders' equity				
Share capital (Note 16)		118,659,790		118,239,970
Share-based payments reserve		24,814,417		19,477,562
Share subscriptions received in advance		-		41,650
Accumulated other comprehensive income		(15,870)		(12,420)
Accumulated deficit		(129,162,213)		(116,458,256)
Total shareholders' equity		14,296,124		21,288,506
Total liabilities and shareholders' equity	$	44,722,214	$	36,684,064

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

Approved on behalf of the board:

"J. Frank Callaghan"
J. Frank Callaghan, Director

"David McMillan"
David McMillan, Director

Barkerville Gold Mines Ltd.

Consolidated Statement of Loss and Comprehensive Loss

For the year ended February 28, 2014

	Year ended February 28, 2014	Year ended February 28, 2013
Revenue	$ 36,788	$ 1,502,567
Cost of sales and direct costs	(19,110)	(871,112)
Gross Profit	17,678	631,455
Mine operating expense (Note 19)	(4,705,383)	(4,373,358)
Mine operating income (loss)	(4,687,705)	(3,741,903)
Expenses:		
Corporate administration (Note 21)	835,866	4,585,978
Corporate administration (Note 21)	4,257,824	3,920,218
	5,093,690	8,506,196
Loss from operations	(9,781,395)	(12,248,099)
Other income (expense):		
Finance expense (Note 22)	(1,938,241)	(178,242)
Loss on gold settlement	-	(37,491)
Loss on impairment of assets	-	(1,755,862)
Reversal of indemnity	-	1,000,902
Change in fair value of derivative (Note 15)	(1,090,321)	-
	(3,028,562)	(970,693)
Loss before income taxes	(12,809,957)	(13,218,792)
Income tax recovery (Note 23)	106,000	680,000
Net loss for the year	(12,703,957)	(12,538,792)
Other comprehensive loss		
Change in fair value of available for sale investment	(3,450)	(4,140)
Total Comprehensive loss for the year	$ (12,707,407)	$ (12,542,932)
Loss per common share, basic and diluted (Note 26)	$ (0.12)	$ (0.12)
Weighted average number of common shares outstanding (Note 26)	109,628,288	108,464,971

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

Barkerville Gold Mines Ltd.

Consolidated Statement of Changes in Equity
As at February 28, 2014

	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, 2012	106,668,164	$ 115,585,246	$ 18,830,170	$ -	$ (8,280)	$ (103,919,464)	$ 30,487,672
Loss for the year	-	-	-	-	-	(12,538,792)	(12,538,792)
Stock options issued	-	-	935,200	-	-	-	935,200
Acquisition of Bethlehem Resources (1996) Corp.	543,478	500,000	-	-	-	-	500,000
Issue of shares on exercise of options		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	109,312,149	$ 118,239,970	$ 19,477,562	$ 41,650	$ (12,420)	$ (116,458,256)	$ 21,288,506
Balance at March 1, 2013	109,401,649	$ 118,239,970	$ 19,477,562	$ 41,650	$ (12,420)	$ (116,458,256)	$ 21,288,506
Loss for the year	-	-	-	-	-	(12,703,957)	(12,703,957)
Stock options issued	-	-	1,351,300	-	-	-	1,351,300
Issue of shares on exercise of warrants	49,000	49,833	(8,183)	(41,650)	-	-	-
Share purchase warrants issued	-	-	4,175,700	-	-	-	4,175,700
Issue of shares on exercise of options	375,000	357,688	(181,962)	-	-	-	175,726
Shares issued for settlement of liability	26,057	12,299					12,299
Change in fair value of available for sale investment	-	-	-	-	(3,450)	-	(3,450)
Balance at February 28, 2014	109,851,706	$ 118,659,790	$ 24,814,417	$ -	$ (15,870)	$ (129,162,213)	$ 14,296,124

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

Barkerville Gold Mines Ltd.

Consolidated Statement of Cash Flows

As at February 28, 2014

	Year ended February 28, 2014	February 28, 2013
Cash flows from operating activities		
Loss for the year	$ (12,703,957)	$ (12,538,792)
Adjustments to reconcile loss to net cash used in operating activities		
Finance expense	262,116	31,319
Depreciation	1,343,926	1,801,361
Stock-based compensation	1,351,300	935,200
Change in provision for site reclamation and closure	(114,796)	(1,575,551)
Change in fair value of derivative component of gold loan facility	1,090,321	-
Accretion expense - debt	1,661,730	257,115
Accretion expense - provision for site reclamation and closure	72,578	67,717
Loss on impairment of assets	-	1,755,862
Deferred tax recovery	(106,000)	(680,000)
Changes in non-cash working capital balances:		
Accounts receivable	406,691	1,812,512
Prepaid expenses	63,737	(78,085)
Trade and other payables	(1,706,638)	2,942,407
Inventory	(1,658,901)	(5,313)
Cash used by operations	(10,037,893)	(5,274,248)
Total cash outflows from operating activities	$ (10,037,893)	$ (5,274,248)
Cash flows from investing activities		
Reclamation deposits	-	(499,998)
Acquisition of property, plant and equipment	(177,744)	(105,072)
Acquisition of mineral properties and deferred development costs	(2,416,227)	(640,254)
Acquisition of exploration and evaluation assets	(42,603)	(5,002)
Release of restricted cash	-	1,323,700
Total cash inflows (ouflows) from investing acitivites	$ (2,636,574)	$ 73,374
Cash flows from financing activities		
Amounts advanced by (paid to) related parties	(1,283,143)	880,772
Loan advances from director	1,278,780	718,162
Loan repayments to director	(1,662,445)	
Issuance of share capital	188,025	1,474,752
Share subscriptions received in advance	-	41,650
Proceeds from gold loan facility	15,000,000	-
Proceeds from bridge loan	1,500,000	-
Bridge loan repayments	(1,500,000)	-
Gold loan facility transaction costs	(623,601)	-
Repayment of interest on convertible debt	-	(223,609)
Repayment of principal on convertible debt	-	(4,293,545)
Total cash inflows (outflows) from financing activities	$ 12,897,616	$ (1,401,818)
Total increase (decrease) in cash during the year	223,149	(6,602,692)
Cash and cash equivalents at the beginning of the year	129,126	6,731,818
Cash and cash equivalents at the end of the year	$ 352,275	$ 129,126

See Note 27 for a description of non-cash amounts not included in the consolidated statements of cash flows.

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 610-1100 Melville 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 refurbished the mill at the QR Mine. On November 16, 2010 the Company acquired 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 negotiation 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 obtain the required financing to complete the development of its Bonanza Ledge property.

2. BASIS OF PREPARATION

a) Going Concern of Operations

These consolidated 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 prevented management from raising additional debt and equity financing to meet its operational cash requirements until it was lifted by the British Columbia Securities Commission ("BCSC") on July 15, 2013. At February 28, 2014, the Company had accumulated losses of $129,162,213 (February 28, 2013: $116,458,256). The Company incurred losses of $12,703,957 during the year ending February 28, 2014 (year ending February 28, 2013: $12,538,792) and had a working capital deficiency of $17,973,355 at February 28, 2014 (February 28, 2013 deficiency of $11,988,219). 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 ability to discharge its liabilities and fulfill its commitments as they come due, is dependent upon the Company having continued support from Related Parties, 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.

Management believes the Company will continue to have the support of related party lenders, and will be successful at securing additional funding, for its exploration and development program. 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. 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)

b) Statement of Compliance

These consolidated 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 30, 2014.

c) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis, except for available for sale investments and derivative liabilities carried at fair value.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, unless otherwise indicated.

a) Basis of Consolidation

The consolidated financial statements include Barkerville Gold Mines Ltd. and its subsidiaries as at February 28, 2014. Subsidiaries are entities controlled by the Company. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, the Company has all of the following:

- Power over the investee (i.e., existing rights that give the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

The operations, assets and liabilities 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:

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

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 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) Inventory

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 expenditures incurred on a license where a NI 43-101 – Standards of Disclosure for Mineral Projects ("43-101") compliant resource has not yet been established are expensed as incurred until sufficient evaluation has occurred in order to establish a 43-101 compliant resource and on completion of a pre-feasibility study. Costs expensed during this phase are included in "exploration expenses" 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 a pre-feasibility study has been completed 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, once on the property is restored to satisfactory condition. 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.

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.

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 Company 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Financial Instruments (Continued)

The Company's financial assets include cash, reclamation deposits, amounts receivable, and available for sale investments.

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. The Company's accounting policy for each category is as follows:

Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss (FVPTL) are carried in the statement of financial position at their fair value at each period end with net changes in fair value presented as a finance expense in profit and loss. Cash is classified as FVPTL.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. Reassessment occurs only if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or there is a reclassification of a financial asset out of the fair value through profit or loss category.

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 amounts receivable and reclamation deposits. 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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 Company determines the classification of its financial liabilities at initial recognition.

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

The Company's financial liabilities include trade and other payables, due to related parties, loans and borrowings, gold loan facility and derivative financial instruments.

Subsequent measurement

Financial liabilities classified as other financial liabilities, based on the purpose for which the liability was incurred, are comprised of trade and other payables, due to related parties, loan from director and non-derivative components of the gold loan facility. 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.

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 18 — Financial instruments and Risk Management.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, and the risks and characteristics are not closely related to those of the host contracts. The Company may enter into derivative financial instruments to obtain loan financing. These instruments are non-hedge derivative instruments and are accounted for at fair value through profit or loss ("FVTPL").

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.

Provision for site reclamation and closure

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.

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

n) Government Grants

From time to time the Company receives government incentive programs such as investment tax credits. Government incentives are accrued when there is reasonable assurance of realization and reflected as a reduction of the related asset or expense.

o) Income Taxes

Income tax expense comprises current and deferred tax expense. Current tax and deferred tax are recognized in profit or loss 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.

p) 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, and flow-through shares 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)

p) 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 profit or loss 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 profit or loss over the remaining vesting period.

Where equity instruments are granted to persons other than employees, profit or loss 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.

q) Recent accounting pronouncements

The adoption of the following new standards, interpretations and amendments where included in the financial statements for the year beginning March 1, 2013:

(i) 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 adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

(ii) 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 adoption of this standard did not have a material impact on the Company’s consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

q) Recent accounting pronouncements

(iii) 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 adoption of this standard did not have a material impact on the Company's consolidated financial statements.

(iv) IAS 1 Presentation of Financial Statements

IAS 1 was amended to change the grouping of items presented in other comprehensive income (OCI). Items that would be reclassified to profit or loss at a future point in time will be presented separately from items that will never be reclassified. The amendments do not change the nature of the items that are currently recognized in OCI, nor do they impact the determination of whether items in OCI are reclassified through profit or loss in future periods. The adoption of this standard did not have a material impact on the Company's consolidated financial statements.

The following new standards, amendments to standards and interpretations have been issued but are not effective during the period ended February 28, 2014.

(i) 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, 2017. The Company is in the process of evaluating the impact of the new standard on the accounting for the available-for-sale investment.

There are no additional standards not yet effective that would have an impact on the consolidated 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 profit or loss 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 consolidated financial statements within the next financial year are discussed below:

4. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

a) Provision for Site Reclamation and Closure

Provisions for Site Reclamation and Closure have been created based on 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 14. 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.

b) 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 the carrying value of mineral properties and deferred development costs, property, plant and equipment, provision for site reclamation and closure, recognition of deferred income tax assets and depreciation and amortization charges.

c) 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.

d) 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.

4. CRITICAL ACCOUNTING ESTIMATES (CONTINUED)

e) 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 16.

f) Fair Value Measurement

The Company measures financial instruments, such as derivatives, at fair value at each balance sheet date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of an asset or liability is measured using the assumption that market participants act in their best economic interest.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient date are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs. Changes in estimates and assumptions about these inputs could affect the reported fair value.

5. CRITICAL ACCOUNTING JUDGMENTS

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements.

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 consolidated financial statements within the next financial year are discussed below:

a) 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.

b) 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 is 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

5. CRITICAL ACCOUNTING JUDGMENTS (CONTINUED)

b) Commencement of Production (continued)

When a mine development / construction project moves into the production stage, the capitalization of certain mine 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.

c) Exploration and Evaluation Expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage that permits a reasonable assessment of the existence of reserves.

d) Impairment of Property, Plant and Equipment, Mining Properties and Deferred Development Costs and Exploration and Evaluation Properties

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 and exploration and evaluation assets 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 two 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 12.

If, after exploration and evaluation expenditure is capitalized, information becomes available suggesting that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount the Company carries out an impairment test at the cash generating unit or group of cash generating units level in the year the new information becomes available. The Company has determined that there are currently no indicators of impairment on its exploration and evaluation properties at February 28, 2014 (2013: None).

e) Embedded Derivatives and Hybrid Financial Instruments

Judgment is required in determining whether financial instruments are classified as debt or equity and whether instruments contain one or more embedded derivatives. The Company makes significant judgments in assessing whether instruments meet the definition of an equity instrument or financial liability and in determining whether a contract gives rise to one or more derivatives with economic characteristics distinct from the host contract. See Note 15.

6. PREPAIDS

The prepaid expenses for the Company are comprised of the following:

	February 28, 2014	February 28, 2013
Insurance	$ 101,083	$ 48,009
Other prepaid amounts	142,665	259,476
Total prepaid expenses	$ 243,748	$ 307,485

7. INVENTORY, COST OF SALES AND DIRECT COST

The inventory for the Company is comprised of the following:

	February 28, 2014	February 28, 2013
Consumables	$ 64,157	$ 66,859
Stockpiled ore	1,661,603	-
Total inventory	$ 1,725,760	$ 66,859

There have been no write-downs of the carrying value of inventory during the year (2013: $nil).

The cost of sales and direct costs included in profit and loss is comprised of the following:

	February 28, 2014	February 28, 2013
Mining and processing costs	$ 1,678,011	$ 114,654
Depletion	-	239,733
Depreciation	-	334,903
General and administrative costs	-	174,135
NSR Royalty	-	13,000
Change in inventory	(1,658,901)	(5,313)
Cost of Sales and Direct Costs	$ 19,110	$ 871,112

8. 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.

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, 2014, the Company had total deposits of $335,000 (2013: $335,000) for this property. Under the original terms of the permit 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 – subsequently paid April 9, 2014;

(ii) Deposit $4,400,000 on or before September 15, 2012 – subsequently amended to December 30, 2014;

(iii) Deposit $1,500,000 on or before September 15, 2013 – subsequently amended to September 30, 2015;

(iv) Deposit $1,500,000 on or before September 15, 2014 – subsequently amended to September 30, 2016;

(v) Deposit $1,400,000 on or before September 15, 2015 – subsequently amended to September 30, 2017;

Subsequent to February 28, 2014, the Company commenced construction and mining operations as pursuant to the December 2011 permit.

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, 2014, the Company had a total deposit of $2,052,300 plus pledged equipment of $807,700 (February 28, 2013: deposit of $2,052,300 plus pledged equipment of $807,700) for this permit. Additional bonds of $343,500 have been paid in respect of properties included in exploration and evaluation asset at February 28, 2014 (February 28, 2013: $343,500).

Subject to certain conditions, the Company is required to deposit additional reclamation bonds of $7,390,000 for a total $10,250,000 as follows:

(i) $1,750,000 within 30 days of the start of milling (not yet start);

(ii) $1,500,000 on or before September 30, 2012;

(iii) $4,140,000 on or before December 15, 2012.

The $1,500,000 can be waived once the tailings dam elevation has reached 1029.3 meters and an independent report there on is obtained meeting the satisfaction of the Government of British Columbia. During the year ended February 28, 2014, the Company raised the tailings dam to the required elevation however it has not yet completed the report or received the waiver.

The $4,140,000 can be waived If the Company has commenced work on the tailings dam seepage, the work is ongoing and an independent report there on is obtained meeting the satisfaction of the Government of British Columbia. As at February 28, 2014 the Company has not yet completed the report or received the waiver.

No provision is included as at February 28, 2014 and February 28, 2013 as the Company is currently negotiating the amounts and terms and expects to obtain the waivers.

9. PROPERTY, PLANT AND EQUIPMENT

	Mine Plant & Equipment	Office furniture & equipment	Total
Cost:			
Balance at February 29, 2012	$ 17,552,923	$ 664,840	$ 18,217,763
Additions	96,561	8,512	105,073
Balance at February 28, 2013	17,649,484	673,352	18,322,836
Additions	126,158	51,586	177,744
Balance at February 28, 2014	$ 17,775,642	$ 724,938	$ 18,500,580
Depreciation and impairment losses			
Balance at February 29, 2012	$ 3,419,224	$ 332,584	$ 3,751,808
Depreciation	1,498,811	62,817	1,561,628
Impairment	224,000	-	224,000
Balance at February 28, 2013	5,142,035	395,401	5,537,436
Depreciation	1,283,549	60,377	1,343,926
Balance at February 28, 2014	6,425,584	455,778	6,881,362
Net Book Value			
At February 29, 2012	$ 14,133,699	$ 332,256	$ 14,465,955
At February 28, 2013	$ 12,507,449	$ 277,951	$ 12,785,400
At February 28, 2014	$ 11,350,058	$ 269,160	$ 11,619,218

As at February 28, 2014, $807,700 (February 28, 2013: $807,700) worth of property, plant and equipment is pledged as collateral for the reclamation deposits (see Note 8). In addition, all property, plant and equipment are pledged as security for the gold loan facility (Note 15).

During the year ended February 28, 2014 the Company recognized $Nil (year ended February 28, 2013: $334,903) of amortization on its property, plant and equipment associated with the QR Mill in cost of sales and direct costs (Note 7). $1,210,695 in depreciation was recorded in mine operating expense, $75,456 in exploration and $57,775 in corporate administration (2013: $1,084,064; $83,795; and $58,867, respectively).

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. No amortization has been charged during the year ended February 28, 2014 (February 28, 2013: $Nil). As at February 28, 2014, the carrying value of the Goldstream Mill is $3,110,000 (February 28, 2013: $3,110,000).

10. MINERAL PROPERTIES AND DEFERRED DEVELOPMENT COSTS

	Mineral properties	Deferred development costs	Total
Cost			
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
Additions for the year	-	7,753,558	7,753,558
Balance at February 28, 2014	$5,275,301	$12,141,089	$17,416,390
Depletion and impairment losses			
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 (note 12(b))	656,525	875,337	1,531,862
Balance at February 28, 2013	3,416,754	3,902,580	7,319,334
Depletion for the year	-	-	-
Balance at February 28, 2014	$3,416,754	$3,902,580	$7,319,334
Carrying amounts			
At February 29, 2012	$2,629,408	$845,431	$3,474,839
At February 28, 2013	$1,858,547	$484,951	$2,343,498
At February 28, 2014	$1,858,547	$8,238,509	$10,097,056

All mineral properties and deferred development costs are pledged as security on the Gold Loan Facility (Note 15).

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, 2014 the Company incurred $Nil (year ended February 28, 2013: $155,303) 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 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 $Nil (February 28, 2013: $239,733) was included in cost of sales and direct costs.

As at February 28, 2014, the carrying value of the mineral property and deferred development costs for the Quesnel River Mine is $nil (February 28, 2013: $nil).

10. MINERAL PROPERTIES AND DEFERRED DEVELOPMENT COSTS (CONTINUED)

Bonanza Ledge:

The Bonanza Ledge gold deposit is located 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 accordingly, all costs associated with the acquisition of the project were transferred from Exploration & Evaluation assets to Mineral Properties, on March 1, 2010.

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, 2014, the Company had not commenced mining operations.

During the year ended February 28, 2014 the Company incurred $7,753,558 (year ended February 28, 2013: $640,254) of deferred development costs.

As at February 28, 2014, the carrying value of Bonanza Ledge is $10,097,056 (February 28, 2013: $2,343,498).

11. EXPLORATION & EVALUATION ASSETS

	Wayside Property	Cariboo Gold Project	Bethlehem	Total
Cost				
Balance at February 29, 2012	$1	$17,594,441	$138,177	$17,732,619
Additions	-	5,002	-	5,002
Balance at February 28, 2013	1	17,599,443	138,177	17,732,621
Additions	-	42,603	-	42,603
Balance at February 28, 2014	$1	$17,642,046	$138,177	$17,775,224
Carrying amounts				
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
At February 28, 2014	$1	$17,642,046	$138,177	$17,780,224

Wayside property:

As at February 28, 2014 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.

11. EXPLORATION & EVALUATION ASSETS (CONTINUED)

Cariboo Gold Project:

The Company has an 100% 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 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, 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).

During the year ended February 28, 2014, the Company purchased a piece of land for $40,000 in order to obtain the surface right for the mineral properties.

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.

12. 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 the greater of value in use (VIU) and fair value less costs to sell. The determination of the 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. 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 VIU. Management has determined that there are two cash generating units at February 28, 2014: 1. The QR Mill and Bonanza Ledge; and 2. The Goldstream Mill (2013: three cash generating units – 1. The QR Mill and Bonanza Ledge; 2. QR Mine; 3. The Goldstream Mill). During the year ended February 28, 2014, the QR Mine CGU was fully depleted.

a) The QR Mill and Bonanza Ledge

The Bonanza Ledge development is planned for production to commence in the fiscal year ending February 28, 2015. In accordance with IAS 36, Impairment of Assets, management estimated the recoverable amount of the CGU to be $21,211,323 which exceeds the carrying amount by $3,161,023. As the recoverable amount exceeds the carrying amount as at February 28, 2014, no impairment charge has been recognized.

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: future average gold price of $1,300 per oz, (2013: $1,520 per oz), average ore grade of 0.268 oz per ton (2013: 0.267 oz per ton), gold milling recovery rate of 90% (2013: 90%), reserve estimates of 77,858 ounces (2013:93,086 ounces) and a CND – USD exchange rate of $0.90:$1.00 (2013: $0.98:$1.00). The future cash flows are adjusted for risks specific to the asset and discounted using a pre-tax discount rate of 10% (February 28, 2013: 9% - 10%).

The recoverable amount as determined by the VIU would decrease to the carrying amount if the assumptions used above were decreased by the following amounts:

	Average Gold Price	Gold Milling Recovery Rate	Foreign Exchange Rate
Increase/(Decrease)	(5.8%)	(6.3%)	(6.6%)

12. IMPAIRMENT OF NON-FINANCIAL ASSETS (CONTINUED)

b) QR Mine

On February 28, 2013 the Company identified indicators of impairment with respect to its QR Mine CGU, due 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 determined the that the recoverable amount was $Nil, resulting in an impairment charge of $1,531,862 during the year ended February 28, 2013.

The Company determined that there were no indications that would require the QR Mine impairment to be reversed during the year ended February 28, 2014.

c) Goldstream Mill

On February 28, 2013 the Company determined that impairment indicators existed for the Goldstream Mill following a decline in scrap steel prices. Management obtained an independent valuation estimates that the fair value less costs to sell for the Goldstream Mill 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 profit and loss for the year (note 9).

The Company determined that no further impairment or indications for impairment reversal existed for the Goldstream Mill during the year ended February 28, 2014.

13. TRADE AND OTHER PAYABLES

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

	February 28, 2014	February 28, 2013
Trade payables	9,414,494	$ 6,277,590
Canada Revenue Agency - provision for Part XII.6 tax	-	227,173
Payroll related liabilities	54,221	173,253
Other payables	485,641	468,097
Total trade and other payables	$ 9,954,356	$ 7,146,113

14. 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 determination of the environmental rehabilitation provision arising from its activities at the Cariboo Gold Project, Quesnel River Mine, Bethlehem Resources and Bonanza Ledge Mine at February 28, 2014 was $5,711,732 (February 28, 2013: $4,931,499). This estimate was based upon a February 28, 2014 undiscounted future cost of $6,158,198 (2013: $5,072,394), 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 (note 8) and the amount in excess of provision was charged to operations as reclamation expenses. During the year ended February 28, 2014, certain work related to the Quesnel River Mine and Cariboo Gold Project was completed and therefore the remaining provision of $114,196 was reversed.

There is 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, February 29, 2012	$	6,439,332
Accretion		67,718
Addition		37,000
Amounts used		(1,612,551)
Balance, February 28, 2013	$	4,931,499
Addition		821,850
Reversal		(114,196)
Accretion		72,578
Balance, February 28, 2014	$	5,711,731
Current portion	$	3,754,808
Long term portion	$	1,956,923

15. GOLD LOAN FACILITY

a) Short-term loan facility

On August 12, 2013, the Company entered into a short term loan with Sprott Resource Lending Corp. ("Sprott"). The principal amount of the loan was $1,500,000 and bore interest at a rate of 12% per annum. As part of the loan, a bonus payment of $200,000 was paid in cash. The short-term loan was repaid on October 8, 2013.

b) Gold loan facility

By agreement dated October 8, 2013 and amended January 31, 2014, the Company entered into a $15,000,000 gold loan facility (the "Facility") with 2176423 Ontario Limited (the "Lender"). The amendment was not considered to be substantially different from the original facility, and all changes have been reflected in the amortized cost.

The Facility is guaranteed by the Company, and all subsidiaries, and secured by first ranking security over all of the Company's present and future assets and a pledge of the shares of the Company's subsidiaries (the "Security"). The Gold Loan Facility is subject to a covenant to maintain working capital of not less than $1,500,000 at all times commencing August 1, 2014.

The Facility is due and payable by way of three cash payments on each of July 31, 2014, May 31, 2015 and March 31, 2016 (each a "Repayment Date"). Each cash payment will be based on the notional value of 4,181.67 ounces of gold (being 12,545 ounces over the term of the Facility) as priced at the Bloomberg composite closing value of gold at 4 p.m. on the day prior to each repayment. If the gold price is less than US$1,200 per ounce, then the Company's repayment amount shall be determined using a reference price of US$1,200 per ounce. If the gold price is above US$1,650 per ounce, then the Company's repayment amount shall be determined using a reference price of US$1,650 per ounce. There is no requirement or option to deliver physical gold as a form of repayment under the terms of the Facility. The Company has agreed to provide the Lender with a minimum rate of return equal to 10% per annum, which shall be calculated on the date which the Facility is fully repaid.

The Company may not voluntarily prepay the Facility at any time prior to maturity without the Lender's prior written consent. However, the Company may at any time prepay all or any part of the Facility using a reference price of US$1,650 per ounce of gold.

In consideration for the advance of the Facility, the Company made a bonus payment to the Lender in the amount of 9,000,000 non-transferable share purchase warrants of the Company (each a "Bonus Warrant"). The Bonus Warrants are exercisable for a period of 30 months, and have an exercise price of $0.89 per warrant ("Exercise Price"). In the event that the volume weighted average trading price of the Company's common shares on the TSX-V is at a 50% premium to the Exercise price , the Company may require the Lender to exercise $5,000,000 worth of the Bonus Warrants within 10 calendar days of the Company providing written notice to the Lender. The Company has calculated the Warrant Exercise Trigger price to be $1.33 per common share.

The Company also paid the Lender a $150,000 structuring fee together with legal and other out-of-pocket expenses of $173,602 incurred in connection with the Facility. A third party finder's fee of $300,000 was paid, and 360,000 non-transferable finder's warrants (each a "Finder's Warrant") were issued by the Company. The Company may require the holder of the Finder's Warrants to exercise 50% of the Finder's Warrants within 10 days of the Company providing notice.

The Company considers the Facility a financial instrument comprised of a host loan with embedded derivatives. On inception, the fair value of the embedded derivative was determined to be $4,612,257 with the residual of the proceeds received less transaction costs allocated as the fair value of the host loan. On October 24, 2014 the exercise price was set and the warrants met the definition of equity. As a result, $4,175,700 allocated to the warrant liability was reclassified to equity. The host loan is subsequently measured at amortized cost with an effective interest rate of 40% per annum. The embedded derivatives are measured at fair value with any fair value changes recognized through profit or loss. For the year ended February 28, 2014, the Company has recorded an interest charge of $1,661,730 related to the host loan and $1,090,321 for the change in fair value of the embedded derivatives.

15. GOLD LOAN FACILITY (CONTINUED)

As at February 28, 2014, the Facility is presented as follows

Accreted principal, net of transaction costs	Principal	Embedded Derivatives	Transaction Costs	Total
At inception	$ 15,000,000	$ (4,612,257)	$ (623,602)	$ 9,764,141
Interest expense	1,536,670	110,165	14,895	1,661,730
February 28, 2014	$ 16,536,670	$ (4,502,092)	$ (608,707)	$ 11,425,871

Derivative liabilities (assets)	Warrants To be Issued	Forward Contracts	Repayment Collar	Total
At inception	$ 4,175,700	$ -	$ 436,557.0	$ 4,612,257
Reclassification to equity	(4,175,700)	-	-	(4,175,700)
Unrealized (gain)/loss	-	1,172,247	(81,926)	1,090,321
February 28, 2014	$ -	$ 1,172,247	$ 354,631	$ 1,526,878

As at February 28,	2014	2013
Accreted principal, net of unamortized transaction costs	$ 11,425,871	$ -
Embedded derivative liabilities (assets)	1,526,878	-
Gold loan liability	12,952,749	-
Current portion of gold loan	6,107,403	-
Long term portion of gold loan	$ 6,845,346	$ -

As at February 28, 2014 the minimum contractual cash flows for the facility are $18,750,000 (note 18 (c))

16. SHARE CAPITAL

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, 2014:

1. The Company issued 49,000 common shares for proceeds of $49,833, of which $41,650 was received during the year ended February 28, 2013.
2. The Company issued 401,057 common shares for proceeds of $188,025 relating to warrants that were exercised.

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.
2. The Company issued 89,500 common shares for proceeds of $81,360 relating to stock options exercised.
3. The Company issued 1,639,140 common shares for proceeds of $1,393,394 relating to warrants that were exercised.
4. The Company issued 461,367 common shares upon conversion of $392,162 in convertible notes.

16. SHARE CAPITAL (CONTINUED)

b) 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.

The following is a summary of changes in options from February 29, 2012 to February 28, 2014:

	Number of options	Weighted average exercise price per share
Balance, February 29, 2012	9,997,434	$1.03
Granted	1,234,980	$0.89
Exercised	(89,500)	$0.91
Forfeited/Expired	(986,057)	$1.12
Balance, February 28, 2013	10,156,857	$1.02
Granted	1,880,814	$0.87
Exercised	(375,000)	$0.47
Forfeited/Expired	(677,500)	$0.88
Balance, February 28, 2014	10,985,171	$1.01

16. SHARE CAPITAL (CONTINUED)

b) Option Plan Details (continued)

A summary of the Company's options outstanding and exercisable at February 28, 2014 is presented as follows:

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Forfeited/ Expired	Closing Balance	Vested and Exercisable	Weighted Average Remaining Life (Years)
4/16/2009	4/16/2014	$ 0.45	1,128,661	-	(125,000)	-	1,003,661	1,003,661	0.13 **
7/17/2009	7/17/2014	$ 0.38	66,266	-	-	-	66,266	66,266	0.38
8/28/2009	8/28/2014	$ 0.60	456,306	-	-	-	456,306	456,306	0.50
9/18/2009	9/18/2014	$ 0.62	78,287	-	-	-	78,287	78,287	0.55
10/29/2009	10/29/2014	$ 1.25	576,490	-	-	-	576,490	576,490	0.67
2/2/2010	2/2/2015	$ 1.00	1,869,208	-	-	-	1,869,208	1,869,208	0.93
9/27/2010	9/27/2015	$ 1.16	285,947	-	-	(50,000)	235,947	235,947	1.58
11/26/2010	11/26/2015	$ 1.42	568,261	-	-	(20,000)	548,261	548,261	1.74
4/1/2011	4/1/2016	$ 1.22	313,956	-	-	(30,000)	283,956	283,956	2.09
6/20/2011	6/20/2016	$ 1.66	535,790	-	-	(67,500)	480,790	480,790	2.31
7/22/2011	7/22/2016	$ 1.66	606,205	-	-	(30,000)	568,705	568,705	2.40
8/12/2011	8/12/2016	$ 1.52	317,500	-	-	-	317,500	317,500	2.45
2/1/2012	2/1/2017	$ 0.89	2,724,000	-	-	(400,000)	2,329,000	2,329,000	2.93
6/19/2012	6/19/2017	$ 0.50	250,000	-	(250,000)	-	-	-	3.31
6/29/2012	6/29/2017	$ 1.21	379,980	-	-	(80,000)	289,980	289,980	3.33
10/23/2013	10/23/2018	$ 0.87	-	1,880,814	-	-	1,880,814	1,880,814	4.65
			10,156,857	1,880,814	(375,000)	(677,500)	10,985,171	10,985,171	2.21

** Subsequently expired unexercised

16. SHARE CAPITAL (CONTINUED)

b) Option Plan Details (continued)

A summary of the Company's options outstanding and exercisable at February 28, 2013 is presented as follows

Grant Date	Expiry Date	Exercise Price	Opening Balance	Granted	Exercised	Forfeited/ Expired	Closing Balance	Vested and Exercisable	Weighted Average Remaining Life (Years)
11/16/2007	11/16/2012	$0.26	26,057	-	-	(26,057)	-	-	-
4/16/2009	4/16/2014	$0.45	1,138,661	-	(10,000)	-	1,128,661	1,128,661	1.13
7/17/2009	7/17/2014	$0.38	66,266	-	-	-	66,266	66,266	1.38
8/28/2009	8/28/2014	$0.60	456,306	-	-	-	456,306	456,306	1.5
9/18/2009	9/18/2014	$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
2/2/2010	2/2/2015	$1.00	1,879,208	-	-	(10,000)	1,869,208	1,869,208	1.93
9/27/2010	9/27/2015	$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
4/1/2011	4/1/2016	$1.22	342,456	-	(18,500)	(10,000)	313,956	313,956	3.09
6/20/2011	6/20/2016	$1.66	550,790	-	-	(15,000)	535,790	535,790	3.31
7/22/2011	7/22/2016	$1.66	626,205	-	-	(20,000)	606,205	606,205	3.4
8/12/2011	8/12/2016	$1.52	317,500	-	-	-	317,500	317,500	3.45
2/1/2012	2/1/2017	$0.89	3,030,000	-	(61,000)	(245,000)	2,724,000	2,724,000	3.93
3/9/2012	3/9/2017	$0.85	-	600,000	-	(600,000)	-	-	-
6/19/2012	6/19/2017	$0.50	-	250,000	-	-	250,000	250,000	4.31
6/29/2012	6/29/2017	$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

During the year ended February 28, 2014, the Company granted stock options under its Stock Option Plan to directors, officers employees and service providers exercisable for up to 1,880,814 shares of the Company, with an estimated fair value of $1,351,300 on the grant date. The options are exercisable on or before October 23, 2018, at a price of $0.87 per share. A total of $71,800 of stock based compensation has been recorded in mine operating expense for the year.

During the year-ended February 28, 2013, the Company made share-based payments to employees of $935,200, 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.

16. SHARE CAPITAL (CONTINUED)

c) Fair Value of Options Issued during the period

The fair value of options issued during the year ended February 28, 2014 were determined using a Black-Scholes option pricing model with the following assumptions:

	February 28, 2014	February 28, 2013
Volatility	119.07%	136.54%-138.77%
Dividend Yield	0%	0%
Risk Free Rate	2.0%	2.55-2.73%
Expected Life (Year)	5	5

d) Share Purchase Warrants

The following is a summary of changes in warrants from February 29, 2012 to February 28, 2014:

	Number of Warrants	Weighted average exercise price per warrant
Balance as at February 29, 2012	22,295,430	$ 1.01
Issue of warrants	-	-
Exercised warrants	(1,695,640)	0.85
Expired	(4,172,840)	0.85
Balance February 28, 2013	16,426,950	$ 1.07
Issue of warrants (Note 15)	9,360,000	0.89
Exercised warrants	(49,000)	0.85
Expired	(16,377,950)	1.07
Balance February 28, 2014	9,360,000	$ 0.89

The fair value of warrants granted during the years ended February 28, 2014 and 2013, were determined using a Black-Scholes option pricing model with the following assumptions:

	February 28, 2014	February 28, 2013
Volatility	85.30%	-
Dividend Yield	0%	-
Risk Free Rate	1.59%	-
Expected Life (Year)	2.5	-

16. SHARE CAPITAL (CONTINUED)

d) Share Purchase Warrants (continued)

As at February 28, 2014, the Company had outstanding share purchase warrants as follows:

Expiry Date	Exercise Price	Outstanding and exercisable
April 24, 2016	$0.89	9,360,000
Balance, February 28, 2014		**9,360,000**

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
June 22, 2013	$0.85	1,978,431
July 17, 2013	$1.10	3,203,073
July 17, 2013	$0.85	64,144
July 20, 2013	$1.10	325,037
July 20, 2013	$0.85	65,007
Balance, February 28, 2013		**16,426,950**

17. RELATED PARTY TRANSACTIONS

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

a) Exploration costs

Costs of $234,642 (year-ended February 28, 2013: $716,077), incurred in connection with the Company's exploration costs, were paid to a Company controlled by a director.

b) Deferred development costs

Costs of $685,245 (year-ended February 28, 2013: $316,318), incurred in connection with the Company's deferred development costs, were paid to a Company controlled by a director.

c) Reclamation costs

Costs of $Nil (year-ended February 28, 2013: $490,065), 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 $83,578 (year-ended February 28, 2013: $76,939), incurred in connection with the Company's above-noted exploration, deferred development and reclamation costs, were paid to a Company controlled by a director.

17. RELATED PARTY TRANSACTIONS (CONTINUED)

e) Legal Fees

Legal fees of $Nil (year-ended February 28, 2013: $155,590) incurred in connection with taxation issues related to Part XII.6 Tax and indemnity, were paid to a law firm of which one partner is a director of the Company. Legal fees of $Nil (year-ended February 28, 2013: $4,832), 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 former director of the Company.

f) Inventory

Costs of $187,461 (year-ended February 28, 2013: $Nil), incurred in connection with the Company's QR Mine were paid to a company controlled by a director of the Company.

g) Key Management Compensation

Key management personnel compensation comprised:

	February 28, 2014	February 28, 2013
Short term employee benefits and director fees	$ 562,258	$ 562,081
Share-based payments	1,207,080	650,900
	$ 1,769,338	$ 1,212,981

h) Balance payable:

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

	February 28, 2014	February 28, 2013
Due to other companies with certain common directors	$ 20,321	$ 1,225,855
Other amounts due to directors	-	77,609
Total due to related parties	20,321	1,303,464
Add: loan from director	627,933	749,482
	$ 648,254	$ 2,052,946

At February 28, 2014, 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, unsecured and on normal commercial terms.

17. RELATED PARTY TRANSACTIONS (CONTINUED)

The other amounts due to director at February 28, 2013, related primarily to balances incurred prior to approval of the partial revocation of the Cease Trade Order (the “PRO”). The balance was payable on demand, interest free, and unsecured.

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, 2014, the Company owes $627,933 to the Company’s CEO by means of the PRO (February 28, 2013 - $749,482). The amounts 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. As at February 28, 2014, a total of $262,116 in interest has been accrued (February 28, 2013 - $31,320), all of which is outstanding as at February 28, 2014. 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 which included purchases of fuel, property tenure renewals, investor relations and travel expenses for a total of $1,084,987 (2013: $435,514).

18. 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 consolidated 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.

18. Financial Instruments and Risk Management (continued)

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 Investments	
	2014	2013	2014	2013	2014	2013
Cash	$ 352,275	$ 129,126	-	-	-	-
Amounts receivable	-	-	$ 169,684	$ 576,375	-	-
Available for sale investments	-	-	-	-	$ 3,450	$ 6,900
Reclamation deposits	-	-	$2,730,800	$2,730,800	-	-
Total Financial Assets	$ 352,275	$ 129,126	$ 2,900,484	$ 3,307,175	$ 3,450	$ 6,900

	2014	2013
Financial liabilities at amortized cost:		
Trade and other payables	$ 9,954,356	$ 7,146,113
Due to related parties	648,254	2,052,946
Gold loan facility (Note 15)	11,425,871	-
Financial liabilities at fair value:		
Derivative liability (Note 15)	1,526,878	-
Total Financial Liabilities	$ 23,555,359	$ 9,199,059

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 management.

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.

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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 is exposed to foreign exchange rate fluctuation due to the payment terms of its gold facility loan. A 5% increase/decrease to the Canadian Dollar to United States Dollar foreign exchange rate would have a $1,018,000 increase/decrease to the Company's net loss for the year ended February 28, 2014 (2013: no exposure).

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.

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, reclamation deposits and amounts receivable. Cash is 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 of $352,275 (2013: $129,126), reclamation deposits of $2,730,800 (2013: $ 2,730,800), and amounts receivable of $169,683 (2013: $ 576,375).

18. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (CONTINUED)

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. As at February 28, 2014, the Company had a working capital deficit of $17,973,355 (See note 27)

The following table sets out the contractual maturities (representing undiscounted contractual cash flows) of financial liabilities as at February 28, 2014 and 2013:

	Book Value at February 28, 2014	Within 1 Year	2 to 5 years	Over 5 years	Total
Trade and other payables	9,954,356	9,954,356	-	-	9,954,356
Due to related parties	648,254	648,254	-	-	648,254
Gold loan facility	12,952,749	6,250,000	12,500,000	-	18,750,000
Total	23,555,359	16,852,610	12,500,000	-	29,352,610

	Book Value at February 28, 2013	Within 1 Year	2 to 5 years	Over 5 years	Total
Trade and other payables	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

18. 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 amounts receivable, trade and other payables, due to related parties, and loan from director approximate their fair value due to their short-term nature.

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	
	2014	2013	2014	2013	2014	2013
Financial Assets						
Cash and cash equivalents	$ 352,275	$ 129,126				
Reclamation deposits	2,730,800	2,730,800				
Available for sale investments	3,450	6,900	-	-	-	-
Financial Liabilities						
Derivative liabilities	-	-	(1,526,878)	-	-	-
	$3,086,525	$ 2,88826	$ (1,526,878)	$ -	$ -	$ -

Available for sale investments

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

Current and non-current derivative liabilities

The derivative liabilities is the repayment in excess of the $15,000,000 gold loan facility with 10% interest per annum when the gold price is greater than $1,650 per ounce on the repayment date (note 15). The fair value of the Company's derivative liabilities is calculated using forward gold prices and gold option prices traded on the Chicago Mercantile Exchange and is considered to be a Level 2 fair value measurement.

19. MINE OPERATING EXPENSE

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

	February 28, 2014	February 28, 2013
Consulting fees	$ 98,031	$ 104,514
Depreciation (Note 9)	1,210,695	1,084,064
Employee salaries and benefits	1,003,120	978,560
Stock based compensation (Note 16(b))	71,800	-
Dewatering	1,221,527	-
Office and administration	502,596	472,367
Reclamation (recovery) in excess of provision (Note 14)	(63,000)	1,082,177
Repairs and maintenance	420,318	416,265
Utilities	240,296	235,411
Total mine operating expense	$ 4,705,383	$ 4,373,358

20. EXPLORATION

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

	February 28, 2014	February 28, 2013
Administration fees	$ 146,208	$ 61,011
Assaying	639,471	475,676
Assessment and tax	66,901	86,794
Consulting fees	722,518	1,047,723
Depreciation (Note 9)	75,456	83,795
Environmental	6,151	243,563
Equipment and rentals	287,151	291,259
Exploration	1,418,252	1,694,380
Land fees and permitting	186,186	543,057
Travel	52,768	58,720
Reclamation (Note 14)	(51,196)	-
Recovery of exploration expenditures for mining tax credit received	(2,714,000)	-
Total exploration	$ 835,866	$ 4,585,978

21. CORPORATE ADMINISTRATION

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

		February 28, 2014		February 28, 2013
Consulting fees	$	192,368	$	148,723
Depreciation (Note 9)		57,775		58,867
Employee salaries and benefits		810,707		781,556
Legal, audit & accounting		533,676		1,162,875
Office and administration		254,423		92,510
Shareholder communications and advertising		691,024		331,333
Stock based compensation (Note 16(b))		1,279,500		935,200
Other corporate administration costs		221,778		199,563
Travel and related expenses		216,573		209,591
Total corporate administration	$	4,257,824		3,920,218

22. FINANCE EXPENSE

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

		February 28, 2014		February 28, 2013
Accretion on provision for site reclamation and closure (Note 14)	$	72,578	$	67,718
Bank charges, interest charges and commissions		203,933		(146,591)
Interest and accretion on debt (Note 15)		1,661,730		257,115
Total finance expense	$	1,938,241	$	178,242

23. DEFERRED INCOME TAXES

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

	2014	2013
Net loss before taxes	(12,809,957)	(13,218,792)
Income taxed at local statutory rates - 25.92% (2013 - 25.00%)	(3,320,000)	(3,305,000)
Non-deductible expenses - stock based compensation	350,000	234,000
Non-deductible expenses - other	718,000	(330,000)
Effect of increase in statutory rates	(746,000)	-
Impact of BCMETC claimed	895,000	763,000
Other	56,000	(38,000)
Unrecognized deferred tax assets	1,941,000	1,996,000
Deferred income tax recovery	$ (106,000)	$ (680,000)

Effective April 1, 2013, the Canadian Federal corporate tax rate remained at 15% and the British Columbia provincial tax rate increased from 10% to 11%.

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

	2014	2013
	26.00%	25.00%
Deferred income tax assets:		
Losses carried forward	9,709,000	7,991,000
Mineral properties and property, plant and equipment	9,435,000	9,456,000
Un-deducted financing costs	385,000	374,000
Asset retirement obligation and other	1,511,000	1,278,000
Unrecognized deferred tax assets	(21,040,000)	(19,099,000)
Total deferred income tax assets	-	-
Deferred income tax liabilities:		
Property, plant and equipment	(1,159,000)	(1,265,000)
Total deferred income tax liabilities	$ (1,159,000)	$ (1,265,000)

23. DEFERRED INCOME TAXES (CONTINUED)

As at February 28, 2014, the Company has operating loss carry forwards for income tax purposes of approximately $37,336,000 that expire at various dates to 2034.

Year of Expiry		
2025	$	50,000
2026		923,000
2027		4,770,000
2028		1,702,000
2029		4,016,000
2030		3,742,000
2031		5,775,000
2032		4,782,000
2033		7,076,000
2034		4,500,000
	$	37,336,000

24. CAPITAL MANAGEMENT

The company monitors its cash, common shares, warrants, stock options, and the gold loan 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.

Under the terms of the Gold Loan Facility, the Company is required to maintain a minimum working capital amount of $1,500,000 commencing August 1, 2014 (Note 15).

The Company's capital consists of the following:

		February 28, 2014		February 28, 2013
Less cash	$	352,275	$	129,126
		(352,275)		(129,126)
Short term gold loan facility		6,107,403		-
Long term gold loan facility		6,845,346		
Share capital		118,659,790		118,239,970
Share-based payments reserve		24,814,417		19,477,562
Shares received in advance		-		41,650
Accumulated other comprehensive income		(15,870)		(12,420)
Accumulated Deficit		(129,162,213)		(116,458,256)
Capital	$	26,896,598	$	21,159,380

25. 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.

26. LOSS PER SHARE

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

	February 28, 2014	February 28, 2013
Loss attributed to ordinary shareholders	$ 12,703,957	$ 12,538,792
Weighted average number of common shares	109,628,288	108,464,971
Basic and diluted loss per share	$ 0.12	$ 0.12
Weighted Average Number of Common Shares		
Issued Common Shares at February 28	109,401,649	106,668,164
Effect on the conversion of options	198,179	56,740
Effect on the conversion of warrants	28,460	994,130
Effect of shares issued for asset acquisition	-	482,826
Effect of shares issued for private placements	-	-
Effect of conversion of convertible notes	-	317,111
	109,628,288	108,464,971

As at February 28, 2014, there are 10,985,171 options (February 28, 2013 – 10,156,857), 9,360,000 share purchase warrants (February 28, 2013 – 14,319,368), and nil broker warrants (February 28, 2013 – 2,107,582) outstanding. The effect of shares issuable on the exercise of options, share purchase warrants, and broker warrants are anti-dilutive.

27. NON-CASH TRANSACTIONS

Investing and financing activities that do not have a direct impact on current cash flows are excluded from consolidated statements of cash flows. The following transactions are excluded from the consolidated statements of cash flows.

a) During the year ended February 28, 2014, included in trade and other payables is $4,514,881 related to mineral properties and deferred development costs.

28. EVENTS OCCURRING AFTER THE REPORTING DATE

Subsequent to February 28, 2014, the Company issued 13,783,000 shares for proceeds of $6,891,500 under a private placement.

On May 14, 2014 the Company completed a shares for debt settlement, where the Company issued 3,000,000 common shares of the Company for settlement of trade and other payables totalling $1,500,000.

Subsequent to year end, the Company produced 119.8 kg of dore and settled 2,809 ozs of gold for total proceeds of $3,953,907.