



**Management's Discussion and Analysis  
For the Three Month Period Ended February 28, 2014**

Contact Information

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## **ALBERTA STAR DEVELOPMENT CORP.**

### **Management's Discussion and Analysis**

#### **For the Three Month Period Ended February 28, 2014**

*This management's discussion and analysis ("MD&A") of Alberta Star Development Corp. (the "Company"), dated April 28, 2014 should be read in conjunction with the accompanying unaudited condensed interim financial statements and notes for the three month period ended February 28, 2014 and the audited financial statements of the Company for the year ended November 30, 2013. The Company's interim and annual financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Except as noted, all financial amounts are expressed in Canadian dollars. Additional information relating to the Company is available on SEDAR and may be accessed at [www.sedar.com](http://www.sedar.com).*

#### **NON-IFRS MEASURES**

The Company's management uses and reports certain measures not prescribed by IFRS (referred to as "non-IFRS measures") in the evaluation of operating and financial performance. Operating netback, which is calculated as average unit sales prices less royalties and operating expenses, and corporate netback, which further deducts administrative and interest expense, represent net cash margin calculations for every barrel of oil equivalent sold. Net debt, which is current assets less current and other financial liabilities (e.g. note payable), is used to assess efficiency and financial strength. Operating netback, corporate netback and net debt do not have any standardized meanings prescribed by IFRS and therefore may not be comparable with the calculation of a similar measure for other companies. The Company uses these terms as an indicator of financial performance because such terms are often utilized by investors to evaluate junior producers in the oil and natural gas sector.

#### **FORWARD-LOOKING INFORMATION**

This document contains certain statements that may be deemed "forward-looking statements". All statements in this document, other than statements of historical fact, that address future production, reserve potential, exploration drilling, exploitation activities and events or developments that the Company expects to occur, are forward looking statements. Forward looking statements are statements that are not historical facts and are generally, but not always, identified by the words "expects", "plans" "anticipates", "believes", "intends", "estimates", "projects", "potential" and similar expressions, or that events or conditions "will", "would", "may", "could" or "should" occur. In particular, the forward-looking statements in this MD&A include: (i) under the heading "Overview and Overall Performance" and "Outlook" statements relating to increasing and maximizing future production and expansion by the Company into the oil and natural gas sector through the development of the Company's existing assets and the acquisition of additional oil and natural gas properties; (ii) under the heading "Outlook" statements relating to the Company's capital expenditure plans for 2014; (iii) under the heading "Outlook" statements relating to licensing approval and the ability to obtain drilling rigs in order to complete the Company's exploration program; and (iv) under the heading "Liquidity and Capital Resources" the statement that the Company believes it has sufficient funds to fund its currently planned exploration and administrative budget through the balance of fiscal 2014. Further, information inferred from the interpretation of drilling results and information concerning mineral resource estimates may also be deemed to be forward looking statements, as it constitutes a prediction of what might be found to be present when and if a project is actually developed. Forward-looking statements involve numerous risks and uncertainties. Estimates and forward-looking statements are based on assumptions of future events and actual results may vary from these estimates. The foregoing forward-looking statements are based on assumptions including that the Company will be able to identify potential assets for acquisition on terms that are satisfactory to the Company; that the execution of the Company's capital expenditure plans will remain in the best interests of the Company; that the Company will obtain all required regulatory approvals; and that the company will be able to source the required services (including drilling rigs) to execute its capital expenditure plans.

Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements are not guarantees of future performance and actual results may differ materially from those in the forward-looking statements. Factors that could cause the actual results to differ materially from those in forward-looking statements include market prices, exploitation and exploration successes, and continued availability of capital and financing, and general economic, market or business conditions and other factors discussed under the heading “*Risks and Uncertainties*”. Investors are cautioned that any such statements are not guarantees of future performance and actual results or developments may differ materially from those projected in the forward-looking statements.

The forward-looking statements contained in this MD&A are made as of the date hereof and the Company undertakes no obligation to update publicly or revise any forward-looking statements or in any other documents filed with Canadian securities regulatory authorities whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws. The forward-looking statements are expressly qualified by this cautionary statement.

Except for the statements of historical fact contained herein, certain information presented constitutes "forward-looking statements" within the meaning of the United States Private Securities Litigation Reform Act of 1995. Such forward-looking statements, including but not limited to, those with respect to potential expansion of mineralization, potential size of mineralized zone, timing of resource calculation and size of exploration program involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievement of Alberta Star Development Corp. (the “Company”) to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, among others, risks related to international operations and joint ventures, the actual results of current exploration activities, conclusions of economic evaluations, uncertainty in the estimation of ore reserves and mineral resources, changes in project parameters as plans continue to be refined, future prices of gold, silver, uranium and base metals, environmental risks and hazards, increased infrastructure and/or operating costs, labor and employment matters, aboriginal and government regulation and permitting requirements as well as those factors discussed in the section entitled "Risk Factors" in the Company’s latest Form 20-F on file with the United States Securities and Exchange Commission in Washington, D.C. Although the Company has attempted to identify important factors that could cause actual results to differ materially, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, readers should not place undue reliance on forward-looking statements.

## **OVERVIEW AND OVERALL PERFORMANCE**

The Company is a Canadian resource exploration and development company that identified, acquired and financed mineral exploration in the Northwest Territories and petroleum and natural gas properties in Western Canada. In August 2010, the Company made two heavy oil acquisitions in Lloydminster, Alberta and Saskatchewan to diversify into the oil resource sector with the acquisition of revenue producing resource assets which it felt complimented its existing mineral exploration properties.

On April 8, 2013, the Company entered into an agreement with Petrocapita Oil and Gas L.P. (“Petrocapita”) of Calgary, Alberta for the sale of its petroleum and natural gas properties in Alberta and Saskatchewan for cash consideration of \$1,875,000. The sale to Petrocapita was completed on April 23, 2013 for total net cash consideration of \$1,900,513 after taking into account initial industry standard adjustments to the agreed purchase price of \$1,875,000. The effective date of this transaction was March 1, 2013. The Company decided to sell its petroleum and natural gas assets because of a continued decline in netbacks for heavy oil in Western Canada.

On May 1, 2013, the Company received approval from the TSX Venture Exchange (the “Exchange”) for its normal course issuer bid (the “Bid”). Pursuant to the Bid, the Company may purchase for cancellation, from time to time, as it considers advisable, up to 1,800,000 of its issued and outstanding common shares, being approximately 8.4% of the Company’s currently outstanding common shares and approximately 9.5% of the Company’s Public Float (as that term is defined in the policies of the Exchange). The price which the Company will pay for any shares purchased by it will be the prevailing market price of such common shares on the Exchange at the time of such purchase. The Bid commenced on May 3, 2013 and will terminate on May 3, 2014, or such earlier time as the Bid is completed or at the option of the Company. Jordan Capital Markets Inc. of Vancouver, British Columbia will conduct the Bid on behalf of

the Company. As at November 30, 2013, the Company purchased 290,000 shares at a cost of \$47,554 which were returned to treasury. From December 1, 2013 to April 28, 2014, the Company purchased 177,500 shares at a cost of \$31,870.

On February 28, 2014, the Company entered into an agreement with TerraX Minerals Inc. (“TerraX”), a company with a director and officer in common, pursuant to which the Company can earn up to a 60% interest in TerraX’s wholly-owned Central Canada gold project (the “Central Canada Gold Property”) in Ontario (the “Option”) and subscribed for 1,300,000 units of TerraX (the “Units”) at \$0.45 per Unit for gross proceeds of \$585,000 (the “Private Placement”). Each Unit consists of one common share and one-half of one share purchase warrant, with each full warrant entitling the holder to purchase an additional common share at an exercise price of \$0.57 per common share exercisable until February 28, 2016.

In order to exercise the Option, the Company must make cash payments to TerraX totaling \$85,000 over a three year period, with \$10,000 due upon execution of a definitive option agreement (the “Option Agreement”), \$25,000 due on the second anniversary of the execution of the Option Agreement (the “Anniversary Date”) and a further \$50,000 due on the third Anniversary Date. The Company must also incur an aggregate of \$500,000 in exploration expenditures over a three year period, with \$100,000 due on the first Anniversary Date, \$150,000 due on the second Anniversary Date and a further \$250,000 due on the third Anniversary Date. The Company will also be responsible for payment of the annual pre-production royalty of \$10,000 to the original vendors of the Central Canada Property due annually in December beginning with the next payment due on December 11, 2014.

The Company’s shares are listed on the TSX Venture Exchange under the symbol “ASX”, on the OTCBB under the symbol “ASXSF” and on the Frankfurt Exchange under the symbol “QLD”.

## **OUTLOOK**

As at February 28, 2014, the Company had working capital of \$5,958,161 inclusive of \$6,037,208 of cash and cash equivalents. As of April 28, 2014, the Company has approximately \$5,975,000 in cash and cash equivalents and \$780,000 in short term investments.

Management believes the Company’s financial position remains strong and is sufficient to cover planned exploration expenditures, additional property acquisitions and administration costs for at least a twelve month period.

All the fiscal quarters below have been prepared using IFRS.

**FINANCIAL AND OPERATING SUMMARY**  
**TABLE A - OPERATIONS BY QUARTER (March 1, 2012 to February 28, 2014)**

All production is conventional heavy oil

	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
<b>Production and per share</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2013</b>	<b>2012</b>	<b>2012</b>	<b>2012</b>
Production - total barrels	-	-	-	-	6,560	7,617	9,848	11,445
<b>Production - bbls/ day</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73</b>	<b>84</b>	<b>107</b>	<b>124</b>
Heavy oil revenue	-	-	-	-	267,535	515,190	574,153	687,383
Royalty income	-	-	-	-	-	-	22	804
Royalties	-	-	-	(3,409)	(48,723)	(93,283)	(118,548)	(153,780)
Production & transportation	-	-	-	27,460	(190,028)	(237,868)	(233,394)	(336,981)
Operating net back	-	-	-	24,051	28,784	184,039	222,233	197,426
General and administrative	(90,645)	56,931	(171,612)	(230,785)	(129,226)	(246,537)	(483,287)	(216,690)
Corporate net back	(90,645)	56,931	(171,612)	(206,734)	(100,442)	(62,498)	(261,054)	(19,264)
Depletion, accretion & amortization	-	-	-	-	(169,226)	(315,926)	(459,785)	(527,139)
Write-downs	-	(23,833)	-	-	-	(1,320,579)	(450)	(835)
Gain on short term investments	388,408	-	-	-	-	-	-	-
Other (expenses) revenue	87,791	68,802	46,919	1,098,679	73,585	29,427	(61,664)	85,801
<b>Earnings (loss) for the period</b>	<b>385,554</b>	<b>101,900</b>	<b>(124,693)</b>	<b>891,945</b>	<b>(196,083)</b>	<b>(1,669,576)</b>	<b>(782,953)</b>	<b>(461,437)</b>
<b>Basic and diluted income (loss) per share</b>	<b>0.018</b>	<b>0.005</b>	<b>(0.006)</b>	<b>0.042</b>	<b>(0.009)</b>	<b>(0.078)</b>	<b>(0.037)</b>	<b>(0.022)</b>
<b>Royalties as % of petroleum revenue</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>18</b>	<b>18</b>	<b>21</b>	<b>22</b>
<b>Per bbl analysis</b>	<b>Per bbl</b>	<b>Per bbl</b>	<b>Per bbl</b>	<b>Per bbl</b>	<b>Per bbl</b>	<b>Per bbl</b>	<b>Per bbl</b>	<b>Per bbl</b>
Heavy oil revenue	-	-	-	-	40.78	67.64	58.30	60.06
Royalty income	-	-	-	-	-	-	-	0.07
Royalties	-	-	-	-	(7.42)	(12.25)	(12.04)	(13.44)
Production and transportation	-	-	-	-	(28.96)	(31.23)	(23.71)	(29.44)
<b>Operating net back</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4.40</b>	<b>24.16</b>	<b>22.55</b>	<b>17.25</b>
General and administrative	-	-	-	-	(19.69)	(32.37)	(49.09)	(18.93)
<b>Corporate net back</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(15.29)</b>	<b>(8.21)</b>	<b>(26.54)</b>	<b>(1.68)</b>
Depletion, accretion & amortization	-	-	-	-	(25.80)	(41.48)	(46.71)	(46.06)
Write-downs	-	-	-	-	-	(173.37)	(0.05)	(0.07)
Other (expenses) revenue	-	-	-	-	11.21	3.86	(6.26)	7.50
Earnings (loss) for the period	-	-	-	-	(29.88)	(219.20)	(79.56)	(40.31)
<b>Funds (invested in) petroleum and mineral properties</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(17,240)</b>	<b>(104,652)</b>	<b>(3,664)</b>	<b>(41,177)</b>	<b>(263,042)</b>

## FINANCIAL AND OPERATING SUMMARY

### TABLE C – BALANCE SHEET

	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	2014	2013	2013	2013	2013	2012	2012	2012
Net cash	6,037,208	6,700,938	6,872,903	8,672,315	7,039,093	6,997,109	6,950,171	7,428,567
Total assets	7,075,550	6,738,829	6,984,905	8,767,755	8,430,333	8,638,833	10,192,055	10,990,054
Total liabilities	1,080,459	1,115,530	1,430,369	1,455,025	2,052,971	2,071,926	2,030,149	2,059,805
Shareholders' equity	5,995,091	5,623,299	5,554,536	7,312,730	6,377,362	6,566,907	8,161,906	8,930,249
<b>SHARES</b>								
Basic outstanding	21,655,979	21,788,979	21,788,979	21,403,979	21,403,979	21,403,979	21,403,979	21,403,979
Weighted average	21,655,979	21,788,979	21,788,979	21,403,979	21,403,979	21,403,979	21,403,979	21,403,979

### MINERAL EXPLORATION PROPERTIES

The Company's mineral exploration property assets consist of:

#### The Eldorado & Contact Lake IOCG & Uranium Properties:

The Company's property interests consist of 32,599.10 hectares ("ha"), situated in the Eldorado/Port Radium/Contact Lake area, McKenzie Mining District, NT. The Company is the first mineral exploration company in 75 years to successfully stake and control this large contiguous land package in the Northwest Territories.

#### 1. Contact Lake Mineral Claims – Contact Lake, and North Contact Lake Mineral Claims – Great Bear Lake, NT

During the year ended November 30, 2005, the Company acquired a 100% undivided right, title and interest, subject to a 1% net smelter return royalty ("NSR"), in five (5) mineral claims, totalling 1,801.82 ha located eight kilometres ("km") southeast of Port Radium on Great Bear Lake, NT for cash payments of \$60,000 (paid) and 60,000 common shares (issued and valued at \$72,000) of the Company. The Company may purchase the NSR for a one-time payment of \$1,000,000. The Company completed additional staking in the area in order to increase the project size to sixteen (16) contiguous claims, totalling 10,563.78 ha. Collectively the properties are known as the Contact Lake Mineral Claims.

Expenditures related to the Contact Lake Mineral Claims for the three month period ended February 28, 2014 consist of claim maintenance and permitting of \$4,749 (2013 - \$7,132). These costs are initially capitalized and tested for impairment.

During the year ended November 30, 2006, the Company acquired a 100% right, interest and title, subject to a 2% NSR, in eleven (11) mineral claims (the "North Contact Lake Mineral Claims"), for cash payments of \$75,000 and the issue of 50,000 common shares of the Company valued at \$182,500. The Company may purchase one-half of the NSR for a one-time payment of \$1,000,000. The North Contact Lake Mineral Claims are situated north of Contact Lake on Great Bear Lake approximately 680 km north of Yellowknife, NT, totalling 6,305.51 ha.

There were no expenditures related to the North Contact Lake Mineral Claims for the three month period ended February 28, 2014 and February 28, 2013.

## **2. Port Radium – Glacier Lake Mineral Claims, NT**

During the year ended November 30, 2005, the Company acquired a 100% undivided right, title and interest, subject to a 2% NSR in four (4) mineral claims, totalling 2,520.78 ha (the “Glacier Lake Mineral Claims”) located 1.6 km east of Port Radium on Great Bear Lake, NT, for cash payments of \$30,000 (paid) and 72,000 common shares (issued and valued at \$72,000) of the Company. The Company may purchase one-half of the NSR for a one-time payment of \$1,000,000.

The property contains a fully operational all-season airstrip situated at Glacier Lake. The Echo Bay claim (produced 23,779,178 ounces of silver) and the Port Radium – Eldorado claim (produced 15 million pounds of uranium and 8 million ounces of silver). The Port Radium uranium belt was formerly one of Canada’s principal producers of uranium during the 1930s and 1940s.

Expenditures related to the Glacier Lake Mineral Claims for the three month period ended February 28, 2014 consist of claim maintenance and permitting of \$Nil (2013 - \$Nil). These costs are initially capitalized and tested for impairment.

## **3. Central Canada Gold Property – Ontario**

On February 28, 2014, the Company entered into an agreement with TerraX Minerals Inc. (“TerraX”), a company with a director and officer in common, pursuant to which the Company can earn up to a 60% interest in TerraX’s wholly-owned Central Canada gold project (the “Central Canada Gold Property”) in Ontario (the “Option”) and subscribed for 1,300,000 units of TerraX (the “Units”) at \$0.45 per Unit for gross proceeds of \$585,000 (the “Private Placement”). Each Unit consists of one common share and one-half of one share purchase warrant, with each full warrant entitling the holder to purchase an additional common share at an exercise price of \$0.57 per common share exercisable until February 28, 2016.

In order to exercise the Option, the Company must make cash payments to TerraX totaling \$85,000 over a three year period, with \$10,000 (paid on February 28, 2014) due upon execution of a definitive option agreement (the “Option Agreement”), \$25,000 due on the second anniversary of the execution of the Option Agreement (the “Anniversary Date”) and a further \$50,000 due on the third Anniversary Date. The Company must also incur an aggregate of \$500,000 in exploration expenditures over a three year period, with \$100,000 due on the first Anniversary Date, \$150,000 due on the second Anniversary Date and a further \$250,000 due on the third Anniversary Date. The Company will also be responsible for payment of the annual pre-production royalty of \$10,000 to the original vendors of the Central Canada Property due annually in December beginning with the next payment due on December 11, 2014.

## **RESULTS OF OPERATIONS – THREE MONTH PERIOD ENDED FEBRUARY 28, 2014**

The Company’s net and comprehensive earnings for the three month period ended February 28, 2014 were \$385,554 or \$0.018 per share compared to a net and comprehensive loss of \$196,083 or \$0.009 loss per share for the three month period ended February 28, 2013.

Included in the net and comprehensive earnings for the three month period ended February 28, 2014 is a gain of \$388,408 on short term investments based on the value of 1,300,000 shares of TerraX Minerals Inc.

The Company sold all its heavy oil operations to Petrocapita effective March 1, 2013 for total net cash consideration of \$1,900,513 after taking into account initial industry standard adjustments to the agreed purchase price of \$1,875,000. This resulted in no earnings from discontinued operations during the three month period ended February 28, 2014 as compared to a net loss from discontinued operations of \$140,442 in the prior year.

The Continuing Operation earnings increased \$441,195 to \$385,554 for the three month period ended February 28, 2014 from a loss of \$55,641 for the three month period ended February 28, 2013 mainly due to a gain of \$388,408 on short term investments.

The other significant changes in Continuing Operations during the current fiscal period compared to the same period a year prior are as follows:

Advertising and promotion expenses were \$1,849 during the three month period ended February 28, 2014 compared to \$Nil incurred during the same period a year prior. The increase in advertising and promotion is primarily attributable to expenditures on news release dissemination fees.

Director fees decreased \$3,000 to \$9,000 for the three month period ended February 28, 2014 from \$12,000 for the three month period ended February 28, 2013. The decrease in director fees was due to one director assuming the role of Chairman and this cost is included under management fees.

Legal and accounting fees decreased \$6,842 to \$19,330 for the three month period ended February 28, 2014, from \$26,172 for the three month period ended February 28, 2013. The decrease in legal and accounting fees from the previous year was mainly due to a reduction in legal fees paid to the Company's legal counsels in Alberta, British Columbia and the Northwest Territories and other general corporate matters.

Management fees stayed the same at \$30,000 for the three month period ended February 28, 2014 as compared to \$30,000 for the three month period ended February 28, 2013. These fees included the CEO and Chairman billing their services under management fees.

Office rent was reduced \$11,663 to \$1,792 for the three month period ended February 28, 2014 from \$13,455 for the three month period ended February 28, 2013. Effective September 1, 2013, the Company moved its office from #506 – 675 West Hastings Street, Vancouver to #2300 – 1066 West Hastings Street, Vancouver for an estimated monthly savings of \$2,500.

Salaries and benefits for the three month period ended February 28, 2014 were reduced to \$Nil as compared to \$24,647 for the three month period ended February 28, 2013 when the former Vice President of Corporate Development was on salary.

Stock-based compensation expense totalling \$8,763, a non-cash item, was incurred during the three month period ended February 28, 2014 on the granting of 1,025,000 stock options of which 512,500 stock options vested during the period as compared to \$Nil for the three month period ended February 28, 2013.

Interest income decreased slightly by \$127 to \$19,522 for the three month period ended February 28, 2014 compared to \$19,649 during the same period a year prior as similar interest rates were being paid on deposits during both periods.

There was an unrealized foreign exchange gain of \$68,269 (2013 – \$52,436) for the three month period ended February 28, 2014 based primarily on the valuation of US\$1,500,870 held in U.S. funds. This gain resulted from the Canadian dollar decreasing in value compared to the US dollar.

## MINERAL PROPERTY EXPENSES

Mineral property expenses comprise (1) exploration expenses, (2) acquisition costs, and (3) recoveries. Total expenditures for the three month periods ended February 28, 2014 and 2013 are summarized below:

For the Three month period Ended February 28, 2014:	Exploration Expenses \$	Acquisition Costs \$	Recoveries \$	Total \$
Contact Lake Mineral Claims – Contact Lake, NT	4,749	-	-	4,749
Central Canada Gold Property, Ontario	-	10,000	-	10,000
	4,749	10,000	-	14,749

For the Three month period Ended February 28, 2013:	Exploration Expenses \$	Acquisition Costs \$	Recoveries \$	Total \$
Contact Lake Mineral Claims – Contact Lake, NT	7,132	-	-	7,132
	7,132	-	-	7,132

Additional particulars of expenditures on mineral properties are provided in Note 7 to the unaudited condensed financial statements for the three month period ended February 28, 2014.

## SUMMARY OF QUARTERLY RESULTS

The following information is derived from the Company's quarterly condensed financial statements for the past eight quarters and has been prepared using IFRS:

Quarter Ended	Net Comprehensive Earnings (Loss) before Discontinued Operations	Basic and Fully Diluted Earnings (Loss) per Share before Discontinued Operations	Net Comprehensive Earnings (Loss)	Basic and Fully Diluted Earnings (Loss) per Share
February 28, 2014	\$385,554	\$0.018	\$385,554	\$0.018
November 30, 2013	\$101,900	\$0.005	\$101,900	\$0.005
August 31, 2013	\$(124,693)	\$(0.006)	\$(124,693)	\$(0.006)
May 31, 2013	\$(230,785)	\$(0.011)	\$891,945	\$0.042
February 29, 2013	\$(55,641)	\$(0.003)	\$(196,083)	\$(0.009)
November 30, 2012	\$(217,110)	\$(0.010)	\$(1,669,576)	\$(0.078)
August 31, 2012	\$(524,724)	\$(0.025)	\$(782,953)	\$(0.037)
May 31, 2012	\$(131,724)	\$(0.006)	\$(461,437)	\$(0.022)

The Company's net comprehensive loss was reduced to \$461,637 for the second quarter ended May 31, 2012 from \$561,647 in the first quarter ended February 29, 2012 mainly due to a reduction in general and administrative expenses and, in particular, a reduction in salaries of \$69,445. The second quarter loss is mainly comprised of \$329,713 of net petroleum loss and general and administrative expenses of \$216,690. The Company generated oil revenues of \$688,187 for the second quarter ended May 31, 2012 with an operating net back of \$197,426. After deducting the depletion and depreciation expense of \$527,139, this resulted in a net petroleum loss of \$329,713 for the quarter.

The Company's net comprehensive loss increased to \$782,953 for the third quarter ended August 31, 2012 from \$461,637 in the second quarter ended May 31, 2012 mainly due to a severance fee of \$204,167 that was paid to the former President upon his resignation on July 10, 2012. The third quarter loss is mainly comprised of \$237,552 of net petroleum loss and general and administrative expenses of \$483,287. The Company generated oil revenues of \$574,175 for the third quarter ended August 31, 2012 with an operating net back of \$222,233. After deducting the depletion and depreciation expense of \$459,785, this resulted in a net petroleum loss of \$237,552 for the quarter.

The Company's net comprehensive loss increased to \$1,669,576 for the fourth quarter ended November 30, 2012 from \$782,953 in the third quarter ended August 31, 2012 mainly due to a write-down of \$1,320,579 on its mineral properties and petroleum and natural gas properties. The fourth quarter loss is mainly comprised of \$1,320,579 in oil and mineral property write-downs, \$131,887 of net petroleum loss and general and administrative expenses of \$246,537. The Company generated oil revenues of \$515,190 for the fourth quarter ended November 30, 2012 with an operating net back of \$184,039. After deducting the depletion and depreciation expense of \$315,926, this resulted in a net petroleum loss of \$131,887 for the quarter.

The Company's net comprehensive loss was reduced to \$196,083 for the first quarter ended February 28, 2013 from \$1,669,576 in the fourth quarter ended November 30, 2012 mainly due to the elimination of a write-down of \$1,320,579 on its mineral properties and oil assets in the fourth quarter. The first quarter loss is mainly comprised of \$140,442 of net petroleum loss and general and administrative expenses of \$129,226. The Company generated oil revenues of \$267,535 for the first quarter ended February 28, 2013 with an operating net back of \$28,784. After deducting the depletion and depreciation expense of \$169,226, this resulted in a net petroleum loss of \$140,442 for the quarter.

The Company's net comprehensive earnings were \$891,945 for the second quarter ended May 31, 2013 and is mainly comprised of a \$1,098,679 gain on the sale of its petroleum and natural gas properties offset by general and administrative expenses of \$230,785, inclusive of additional legal fees related to the sale of the assets.

The Company's net comprehensive loss was \$124,693 for the third quarter ended August 31, 2013 and is mainly comprised of a recovery of \$171,612 in general and administrative expenses offset by \$21,090 in interest income, \$1,500 in rent recovery and \$24,329 in an unrealized foreign exchange gain.

The Company's net comprehensive earnings were \$101,900 for the fourth quarter ended November 30, 2013 and is mainly comprised of a recovery of \$56,931 in general and administrative expenses due to a \$263,746 recovery of a general provision related to past flow-through shares with \$18,029 in interest income and \$13,481 in an unrealized foreign exchange gain.

The Company's net comprehensive earnings were \$385,554 for the first quarter ended February 28, 2014 and is mainly comprised of a gain of \$388,408 on short term investments, \$19,522 in interest income, \$68,269 in an unrealized foreign exchange gain offset by general and administrative expenses of \$90,645.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company began recognizing and receiving revenue from its heavy oil resource properties as of August 1, 2010 but sold all its heavy oil resource properties effective March 1, 2013. The Company relies on equity financing to fund its exploration and administrative costs.

As at February 28, 2014, the Company had cash and cash equivalents of \$6,037,208 and working capital of \$5,958,161 as compared to \$6,700,938 of cash and cash equivalents and working capital of \$5,600,849 at November 30, 2013.

Total assets at February 28, 2014 increased to \$7,075,550 from \$6,738,829 at November 30, 2013, primarily as a result of the increase in value of short term investments.

As of the date of this report the Company has cash and cash equivalents of approximately \$5,975,000 and short term investments with a current value of \$780,000. The Company believes that this is sufficient to fund its currently planned exploration and administrative budget through the balance of fiscal 2014.

## CONTINGENCIES

The Company has certain obligations related to the amendments related to prior flow-through transactions.

## OFF-BALANCE SHEET ARRANGEMENTS

The Company has no off-balance sheet arrangements that would require disclosure.

## TRANSACTIONS WITH RELATED PARTIES

The Company's Board of Directors consists of Guido Cloetens, Tom Ogryzlo, Stuart Rogers, Robert Hall, Martin Burian and Erwin Holsters. Stuart Rogers is the Company's Chief Executive Officer, Guido Cloetens is the Company's Chairman and Gord Steblin is the Company's Chief Financial Officer.

The Company paid amounts to related parties as follows:

	For the Three month period Ended	
	February 28, 2014	February 28, 2013
Management fees paid to a company controlled by Mr. Stuart Rogers	15,000	30,000
Accounting fees paid to a company controlled by Mr. Gord Steblin	15,000	19,500
Chairman fees paid to a company controlled by Mr. Guido Cloetens	15,000	-
Director fees paid to Mr. Brian Morrison (resigned June 12, 2013)	-	3,000
Director fees paid to Mr. Edward Burylo (resigned June 12, 2013)	-	3,000
Director fees paid to a company controlled by Mr. Guido Cloetens	-	3,000
Director fees paid to Mr. Tom Ogryzlo	3,000	3,000
Director fees paid to Mr. Martin Burian (appointed June 12, 2013)	3,000	-
Director fees paid to Mr. Erwin Holsters (appointed June 12, 2013)	3,000	-
Salaries and benefits paid to Mr. Rob Hall*	-	20,000
	\$54,000	\$81,500

During the three month period ended February 28, 2014, 512,500 options to directors and officers of the Company vested with an estimated fair value of \$8,763.

These transactions were in the normal course of operations and were measured at the exchange value which represented the amount of consideration established and agreed to by the related parties.

\* Resigned November 1, 2013 as Vice President Corporate Development.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of income and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

Areas requiring a significant degree of estimation and judgment relate to the recoverability of the carrying value of petroleum and natural gas assets, fair value measurements for financial instruments and share-based payments, the recognition and valuation of provisions for decommissioning liabilities, the recoverability and measurement of deferred tax assets and liabilities and ability to continue as a going concern. Actual results may differ from those estimates and judgments.

## CHANGE IN ACCOUNTING POLICY

The Company adopted IAS 1 (Amendment) 'Presentation of Financial Statements' effective December 1, 2012, which includes amendments of items and other comprehensive income. The adoption of IAS 1 did not result in a significant impact on the Company's financial statements.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

	As at 28 February 2014 \$	As at 30 November 2013 \$
<b>FINANCIAL ASSETS</b>		
<b>FVTPL, at fair value</b>		
Cash and cash equivalents	6,037,208	6,700,938
Short term investments - warrants	258,408	-
<b>Loans and receivables, at amortized cost</b>		
Trade and other receivables	18,785	327
<b>Available-for-sale, at fair value</b>		
Short term investments - shares	715,000	-
<b>Total financial assets</b>	<b>7,029,401</b>	<b>6,701,265</b>
<b>FINANCIAL LIABILITIES</b>		
<b>Other liabilities, at amortized cost</b>		
Trade payables	5,343	25,313
<b>Total financial liabilities</b>	<b>5,343</b>	<b>25,313</b>

Fair value - The fair value of financial assets and financial liabilities at amortized cost is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions. The Company considers that the carrying amount of all its financial assets and financial liabilities recognized at amortized cost in the financial statements approximates their fair value due to the demand nature or short term maturity of these instruments.

Credit risk - Credit risk is the risk of an unexpected loss if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises primarily from the Company's cash and cash equivalents and trade receivables. The Company manages its credit risk relating to cash and cash equivalents by dealing only with highly-rated Canadian financial institutions. As at 30 November 2013, trade receivables were comprised of GST receivable of \$4,388 (30 November 2013 - \$3,186), trade receivable of \$Nil (30 November 2013 - \$327) and interest receivable of \$18,785 (30 November 2013 - \$Nil). As a result, credit risk is considered insignificant.

Liquidity risk - Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by continuously monitoring actual and projected cash flows and matching

the maturity profile of financial assets and liabilities. As the Company's financial instruments are substantially comprised of cash and cash equivalents, liquidity risk is considered insignificant.

Interest rate risk - The Company's interest rate risk is primarily related to the Company's cash and cash equivalents for which amounts were invested at interest rates in effect at the time of investment. Changes in market interest rates affect the fair market value of the cash and cash equivalents. However, as these investments come to maturity within a short period of time, the impact would likely not be significant.

A 1% change in short-term rates would have changed the interest income and net earnings of the Company, assuming that all other variables remained constant, by approximately \$15,000 for the three month period ended February 28, 2014.

Currency risk - The majority of the Company's cash flows and financial assets and liabilities are denominated in Canadian dollars, which is the Company's functional and reporting currency. Foreign currency risk is limited to the portion of the Company's business transactions denominated in currencies other than the Canadian dollar.

The Company's objective in managing its foreign currency risk is to minimize its net exposures to foreign currency cash flows by holding most of its cash and cash equivalents in Canadian dollars. The Company monitors and forecasts the values of net foreign currency cash flow and financial position exposures and from time to time could authorize the use of derivative financial instruments such as forward foreign exchange contracts to economically hedge a portion of foreign currency fluctuations. The Company has not, to the date of these financial statements, entered into derivative instruments to offset the impact of foreign currency fluctuations.

Commodity price risk - The Company is in the exploration stage and is not subject to commodity price risk.

The Company does not have any risk associated with "other instruments"; that is, instruments that may be settled by the delivery of non-financial assets.

## **RISKS AND UNCERTAINTIES**

The Company believes that the following items represent significant areas for consideration.

### ***Cash Flows and Additional Funding Requirements***

The Company has limited financial resources and no assurances that sufficient funding, including adequate financing, will be available. If the Company's exploration programs are successful, additional funds will be required in order to complete the development of its properties. The sources of funds currently available to the Company include; raising equity or debt capital, or offering an interest in its projects to another party. There is no assurance that the Company will be successful in raising sufficient funds to conduct further exploration and development of its projects or to fulfill its obligations under the terms of any option or joint venture agreements, in which case the Company may have to delay or indefinitely postpone further exploration and development, or forfeit its interest in its properties or prospects.

### ***Industry***

The Company is engaged in the exploration of mineral properties, an inherently risky business. There is no assurance that funds spent on the exploration and development of a mineral deposit will result in the discovery of an economic ore body. Most exploration projects do not result in the discovery of commercially mineable ore deposits.

The Company does not use derivative instruments as a means to manage risk.

### ***Commodity Prices***

The profitability of the Company's operations will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The prices of mineral commodities have fluctuated widely in recent years. Current and future price declines could cause commercial production to be impracticable. The Company's revenues and earnings also could be affected by the

prices of other commodities such as fuel and other consumable items, although to a lesser extent than by the price of mineral commodities.

### ***Competition***

The mining industry is intensely competitive in all of its phases, and the Company competes with many companies possessing greater financial resources and technical facilities than itself with respect to the discovery and acquisition of interests in mineral properties, the recruitment and retention of qualified employees and other persons to carry out its exploration activities. Competition in the mining industry could adversely affect the Company's prospects for exploration in the future.

### ***Government Laws, Regulation & Permitting***

Mining and exploration activities of the Company are subject to domestic laws and regulations governing prospecting, development, production, taxes, labour standards, occupational health, mine safety, waste disposal, toxic substances, the environment and other matters. Although the Company believes that all exploration activities are currently carried out in accordance with all applicable rules and regulations, no assurance can be given that new rules and regulations will not be enacted or that existing rules and regulations will not be applied in a manner which could limit or curtail production or development. Amendments to current laws and regulations governing the operations and activities of the Company or more stringent implementation thereof could have a substantial adverse impact on the Company.

The operations of the Company will require licenses and permits from various governmental authorities to carry out exploration and development at its projects. There can be no assurance that the Company will be able to obtain the necessary licences and permits on acceptable terms, in a timely manner or at all. Any failure to comply with permits and applicable laws and regulations, even if inadvertent, could result in the interruption or closure of operations or material fines, penalties or other liabilities.

### ***Title to Properties***

Acquisition of rights to mineral properties is a very detailed and time-consuming process. Title to mineral properties may be disputed. To the best of the Company's knowledge, the Company has title to all of the properties for which it holds mineral leases or licenses or in respect of which it has a right to earn an interest, however, the Company cannot give an assurance that title to such properties will not be challenged or impugned.

The Company has the right to earn an increased interest in some of its properties. To earn this increased interest in each property, the Company is required to make certain cash payments. If the Company fails to make these payments, the Company may lose its right to such properties and forfeit any funds expended to such time.

### ***Key Management***

The success of the Company will be largely dependent upon the performance of its key officers and consultants. Locating mineral deposits depends on a number of factors, not the least of which is the technical skill of the exploration personnel involved. The success of the Company is largely dependent on the performance of its key individuals. Failure to retain key individuals or to attract or retain additional key individuals with necessary skills could have a materially adverse impact upon the Company's success.

### ***Volatility of Share Price***

Market prices for shares of early stage companies are often volatile. Factors such as announcements of mineral discoveries, financial results, and other factors could have a significant effect on the price of the Company's shares.

### ***Conflict of Interest***

Some of the Company's directors and officers are directors and officers of other natural resource or mining-related companies. These associations may give rise from time to time to conflicts of interest. As a result of such conflicts, the Company could potentially miss the opportunity to participate in certain transactions or opportunities.

### **SHARE DATA**

As of April 28, 2014 the Company has 21,655,979 common shares without par value issued and outstanding. In addition, the Company has 1,795,000 incentive stock options ("Options") outstanding with each Option entitling the holder to receive one common share upon its exercise. Of the Options, 170,000 are exercisable at \$1.00 each, 225,000 are exercisable at \$0.21 each, 75,000 are exercisable at \$0.165 each and 1,325,000 are exercisable at \$0.20 each. There are no warrants outstanding as at April 28, 2014.