

CAVAN VENTURES INC.

Vancouver, B.C.

FINANCIAL STATEMENTS

February 28, 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Cavan Ventures Inc.

We have audited the accompanying financial statements of Cavan Ventures Inc. which comprise the balance sheets as at February 28, 2011 and 2010 and the statements of operations and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the 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 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 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, these financial statements present fairly, in all material respects, the financial position of Cavan Ventures Inc. as at February 28, 2011 and 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Cavan Ventures Inc.'s ability to continue as a going concern.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

June 23, 2011



CAVAN VENTURES INC.
BALANCE SHEETS
AS AT FEBRUARY 28

	2011	2010
ASSETS		
Current		
Cash	\$ 482,384	\$ 7,254
Receivables	6,491	5,388
Prepaid expenses	-	1,127
	488,875	13,769
Mineral properties (Note 3)	494,345	377,345
Deferred exploration costs (Note 4)	616,286	461,893
	\$ 1,599,506	\$ 853,007
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current		
Accounts payable and accrued liabilities	\$ 95,742	\$ 66,525
Shareholders' Equity		
Share capital (Note 5)	2,133,307	1,185,839
Contributed surplus (Note 5, and 6)	778,661	570,223
Deficit	(1,408,204)	(969,580)
	1,503,764	786,482
	\$ 1,599,506	\$ 853,007

Nature and continuance of operations (Note 1)

Subsequent events (Note 13)

Approved on behalf of the Board:

_____ Director _____ Director

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

CAVAN VENTURES INC.
STATEMENT OF OPERATIONS AND DEFICIT
FOR THE YEARS ENDED FEBRUARY 28

	2011	2010
EXPENSES		
Filing fees	\$ 20,302	\$ 10,614
Investor relations	15,000	-
Marketing and promotions	39,494	-
Management fees (Note 7)	67,784	61,555
Office and miscellaneous	11,369	3,606
Professional fees	92,531	65,425
Stock-based compensation (Note 6)	184,578	-
Transfer agent fees	4,617	6,056
Travel	1,850	6,293
Telecommunications	2,286	1,923
LOSS BEFORE OTHER ITEMS	(439,811)	(155,472)
OTHER ITEMS		
Interest income	1,187	86
Loss on winding up subsidiary	-	(332)
Write off of investment (Note 12)	-	(30,000)
	1,187	(30,246)
LOSS AND COMPREHENSIVE LOSS	(438,624)	(185,718)
DEFICIT, BEGINNING	(969,580)	(783,862)
DEFICIT, ENDING	\$ (1,408,204)	\$ (969,580)
BASIC AND DILUTED LOSS PER COMMON SHARE	\$ (0.03)	\$ (0.01)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	16,240,628	14,068,299

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

**CAVAN VENTURES INC.
STATEMENT OF CASH FLOWS
FOR THE YEARS ENDED FEBRUARY 28**

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	\$ (438,624)	\$ (185,718)
Items not involving cash:		
Loss on winding up subsidiary	-	332
Stock-based compensation	184,578	-
Changes in non-cash working capital items:		
(Increase)/Decrease in Receivable	(1,103)	1,393
(Increase)/Decrease in Prepaid expenses	1,127	(1,127)
Increase/(Decrease) in Accounts payable and accrued liabilities	18,206	36,687
Net cash used in operating activities	<u>(235,816)</u>	<u>(148,433)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of mineral property	(107,933)	(67,284)
Deferred exploration costs	(152,449)	(158,470)
Mining tax credit	-	21,218
Net cash used in investing activities	<u>(260,382)</u>	<u>(204,536)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of common shares for cash	1,040,000	-
Share issuance costs	(68,672)	-
Net cash provided by financing activities	<u>971,328</u>	<u>-</u>
Change in cash	475,130	(352,969)
Cash, beginning of the year	<u>7,254</u>	<u>360,223</u>
Cash, ending of the year	<u>\$ 482,384</u>	<u>\$ 7,254</u>

Supplemental disclosure with respect to cash flows (Note 10)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Cavan Ventures Inc. (the “Company”) was incorporated under the Business Corporations Act (British Columbia) on February 28, 2006.

The Company is a mineral property exploration company and has not yet determined whether its properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development and upon future profitable production.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) assuming the Company will continue on a going-concern basis. The Company has incurred net losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to develop profitable operations or to continue to raise adequate financing. Management is actively targeting sources of additional financing which would assure continuation of the Company’s operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the balance sheets. The financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue operations.

The current market conditions and volatility increase the uncertainty of the Company’s ability to continue as a going concern given the need to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds.

2. SIGNFICANT ACCOUNTING POLICIES

Basis of presentation

These financial statements have been prepared in accordance with Canadian GAAP and are presented in Canadian dollars.

Basis of consolidation

The consolidated financial statements as of and for the year ended February 28, 2009 include the accounts of the Company and its wholly-owned subsidiary, Fast Bridge Limited, incorporated on April 18, 2008 in the British Virgin Islands. The subsidiary was wound up on November 1, 2009. As a result, the financial statements for the year ended February 28, 2010 include the results of operations of Fast Bridge Limited from March 1, 2009 to November 1, 2009.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Significant areas requiring the use of management estimates relate to the valuation of mineral properties, the fair value of financial instruments, future income taxes and the fair value of stock options and stock-based transactions. Financial results as determined by actual events could differ from those estimates.

Mineral properties

The Company records its interests in mineral properties and areas of geological interest at cost. All direct and indirect costs relating to the acquisition of these properties are capitalized on the basis of specific claim blocks or areas of geological interest until the properties to which they relate are placed into production, sold or management has determined there to be impairment. These costs will be amortized on the basis of units produced in relation to the proven reserves available on the related property following commencement of production. Mineral properties which are sold before the property reaches the production stage will have all revenues from the sale of the property credited against the cost of the property. Properties which have reached the production stage will have a gain or loss calculated based on the portion of that property sold. The recorded cost of mineral exploration interests is based on cash paid, the value of share considerations and exploration and development costs incurred. The recorded amount may not reflect recoverable or fair value as this will be dependent on the development program, the nature of the mineral deposit, commodity prices, adequate funding and the ability of the Company to bring its projects into production.

Management evaluates each mineral interest on a reporting period basis or as changes in events and circumstances warrant, and makes a determination based on exploration activity and results, estimated future cash flows and availability of funding as to whether costs are capitalized or charged to operations. Mineral property interests, where future cash flows are not reasonably determinable, are evaluated for impairment based on management's intentions and determination of the extent to which future exploration programs are warranted and likely to be funded.

Deferred exploration costs

The Company defers all exploration costs relating to mineral properties and areas of geological interest until the properties to which they relate are placed into production, sold, abandoned or management has determined there to be impairment. These costs will be amortized on the basis of units produced in relation to the estimated reserves available on the related property following commencement of production or written-off to operations in the period related properties are abandoned.

2. SIGNFICANT ACCOUNTING POLICIES (cont'd...)

Asset retirement obligations

The Company has adopted the Canadian Institute of Chartered Accountants (“CICA”) Handbook Section 3110, “Asset Retirement Obligations”. Under this policy, the present value of future retirement obligations is recorded as a liability when that liability is incurred with a corresponding increase in the carrying value of the related assets. The liability for asset retirement obligations is accreted to the amount ultimately payable over the period to the date it is paid. The Company currently does not have any asset retirement obligations.

Impairment of long-lived assets

The Company follows the recommendations of the CICA Handbook Section 3063, “Impairment of Long-Lived Assets”. Section 3063 establishes standards for recognizing, measuring and disclosing impairment of long-lived assets held for use. The Company conducts its impairment test on long-lived assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. Impairment is recognized when the carrying amount of an asset to be held and used exceeds the undiscounted future net cash flows expected from its use and disposal. If there is impairment, the impairment amount is measured as the amount by which the carrying amount of the asset exceeds its fair value, calculated using discounted cash flows when quoted market prices are not available.

Future income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

Share capital - Flow-through shares

The Company renounces qualifying Canadian exploration expenditures to certain share subscribers who subscribe for flow-through shares in accordance with the Income Tax Act (Canada). Under these provisions the Company is required to incur and renounce qualifying expenditures on a timely basis for the respective flow-through subscriptions and accordingly, it is not entitled to the related tax deductions and tax credits for such expenditures.

2. SIGNFICANT ACCOUNTING POLICIES (cont'd...)

Share capital - Flow-through shares (cont'd...)

The Company follows recommendations by the Emerging Issues Committee (“EIC”) of the CICA relating to the issuance of flow-through shares. EIC 146 requires the recognition of future income tax liabilities relating to the issuance of flow-through shares as a direct reduction in share capital in the period of completion of applicable tax filings renouncing qualifying Canadian exploration expenditures to the share subscribers. The Company will recognize future income tax recoveries by applying available non-capital losses and other deductible temporary differences not previously recognized to offset any future income tax liability resulting from the issuance of flow-through shares. The resulting future income tax recovery is recognized in operating results in the same period.

Stock-based compensation

The Company has adopted the accounting standards issued by the CICA Handbook Section 3870, “Stock-based compensation and other stock-based payments”, which recommends the fair-value based method for measuring compensation costs. The Company determines the fair value of the stock-based compensation using the Black-Scholes option pricing model.

Loss per share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, the weighted average number of shares outstanding used in the calculation of diluted loss per share assumes that the deemed proceeds received from the exercise of stock options, share purchase warrants and their equivalents would be used to repurchase common shares of the Company at the average market price during the year.

Existing stock options and share purchase warrants have not been included in the computation of diluted loss per share as to do so would be anti-dilutive. Accordingly, basic and diluted loss per share is the same.

Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments, including derivatives, are measured at the balance sheet date at fair value except for loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost.

The Company does not use any hedging instruments.

2. SIGNFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

The Company's financial instruments consist of cash, receivables and accounts payable and accrued liabilities. Cash is measured at face value, representing fair value, and is classified as held-for-trading. Receivables, which are measured at amortized cost, are classified as loans and receivables. Accounts payable are measured at amortized cost and are classified as other financial liabilities. The fair value of these financial instruments approximates their carrying values, unless otherwise noted.

The Company has determined that it does not have derivatives or embedded derivatives.

CICA Handbook Section 3862, Financial Instruments – Disclosure was amended to require disclosure about the inputs used in making fair value measurements, including their classification within a hierarchy that prioritizes their significance. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

See note 8 for relevant disclosures.

Change in Accounting Policies

Business Combinations, Consolidations, Non-Controlling Interests

In January 2009, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Sections 1582 *Business Combinations*, 1601 *Consolidated Financial Statements* and 1602 *Non-controlling Interests* which replace CICA Handbook Sections 1581 *Business Combinations* and 1600 *Consolidated Financial Statements*. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under IFRS. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These Sections are applicable for interim and annual consolidated financial statements for fiscal years beginning March 1, 2011. Early adoption of these sections is permitted and all three sections must be adopted concurrently.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Recent Accounting Pronouncements

International financial reporting standards (“IFRS”)

The CICA has adopted a strategic plan whereby the Canadian accounting standards will be converged with IFRS with the requirement to report under the new standards for fiscal years commencing in 2011. The Company’s transition date of March 1, 2011 will require the restatement into IFRS for comparative purposes of amounts previously reported under Canadian GAAP by the Company for the year ended February 28, 2011, including a revised opening balance sheet as at March 1, 2010.

3. MINERAL PROPERTIES

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims. The Company has investigated title to its mineral properties and, to the best of its knowledge, title to its properties are in good standing.

	Kaslo Property		KM Property		Total
Balance at February 28, 2009	\$ 152,671	\$	123,390	\$	276,061
Additions:					
Cash	60,000		3,000		63,000
Tenure	550		3,734		4,284
Issuance of common shares	-		34,000		34,000
Balance at February 28, 2010	213,221		164,124		377,345
Additions:					
Cash	10,000		107,000		117,000
Balance at February 28, 2011	\$ 223,221	\$	271,124	\$	494,345

KM Property

On February 8, 2008, the Company entered into an option agreement and subsequent amendments to earn a 100% interest, subject to a 2% net smelter return royalty (“NSR”), in the KM Property located in British Columbia. The Company is required to:

- (a) pay \$195,000 cash (paid).
- (b) issue 365,000 common shares of the Company (issued and valued at \$66,700).
- (c) incur exploration or development expenditures totalling \$450,000 on the property as follows: at least \$125,000 in expenditures on or before October 15, 2009 (incurred); an additional \$160,000 on or before October 15, 2010 (incurred); and an additional \$165,000 on or before October 15, 2011.

3. MINERAL PROPERTIES (cont'd...)

KM Property (cont'd...)

The 2% NSR can be purchased at any time by the Company paying \$1,000,000 less all amounts previously paid under the option agreement as advances against the NSR. Commencing on June 15, 2011, and on the anniversary thereof the Company shall pay \$25,000 in cash, or the equivalent in common shares of the Company, each year until the property is placed in commercial production or abandoned by the Company.

Kaslo Property

On May 10, 2006, the Company entered into an option agreement and subsequent amendments. The Company earned a 100% interest, subject to a 2% NSR, in the Kaslo Property located in British Columbia by way of having made the following payments:

- (a) \$150,000 cash.
- (b) 200,000 common shares of the Company valued at \$45,750.
- (c) minimum \$250,000 exploration expenditures.

The 2% NSR can be purchased at any time by the Company paying \$1,000,000 less all amounts previously paid under the option agreement as advances against the NSR. Commencing on June 15, 2009, and on the anniversary thereof each year until the property is placed in commercial production or abandoned by the Company, the Company shall pay \$10,000 in cash, or the equivalent in common shares of the Company, as an advance against the NSR to be paid on commercial production occurring. All advance royalties so paid by the Company shall be recoverable by the Company, together with interest at a rate of prime plus 2% per annum, from 90% owing of the royalty payable on commercial production. The Company has paid cash \$10,000 in fiscal 2010 and accrued \$10,000 as of February 28, 2011 (subsequently paid).

4. DEFERRED EXPLORATION COSTS

During the year ended February 28, 2011, the exploration expenditures on the Company's mineral properties were incurred as follows:

	Assays/Lab/ Report/Tenure	Geological Consulting	Field Expenses	Mineral Credit Recoverable	Total
Kaslo Property					
February 28, 2010	\$ 114,026	\$ 87,171	\$ 138,444	\$ (21,218)	\$318,423
Additions	-	-	-	-	-
February 28, 2011	114,026	87,171	138,444	(21,218)	318,423
Kispegas (KM) Property					
February 28, 2010	-	27,027	116,443	-	143,470
Additions	14,180	-	140,213	-	154,393
February 28, 2011	14,180	27,027	256,656	-	297,863
Total February 28, 2011	\$ 128,206	\$ 114,198	\$ 395,100	\$ (21,218)	\$616,286

CAVAN VENTURES INC.
NOTES TO THE FINANCIAL STATEMENTS
FEBRUARY 28, 2011

4. DEFERRED EXPLORATION COSTS (cont'd...)

During the year ended February 28, 2010, the exploration expenditures on the Company's mineral properties were incurred as follows:

	Assays	Geological consulting	Field expenses	Mining credit recoverable	Total
Kaslo Property					
February 28, 2009	\$99,026	\$87,171	\$138,444	\$(21,218)	\$303,423
Additions	15,000	-	-	-	15,000
February 28, 2010	114,026	87,171	138,444	(21,218)	318,423
KM Property					
February 28, 2009	-	-	-	-	-
Additions	-	27,027	116,443	-	143,470
February 28, 2010	-	27,027	116,443	-	143,470
Total, February 28, 2010	\$114,026	\$114,198	\$ 254,887	\$ (21,218)	\$ 461,893

5. SHARE CAPITAL

	Number of shares	Amount of Share Capital	Contributed Surplus
Authorized			
Unlimited number of common shares without par value			
Issued			
Balance as at February 28, 2009	14,061,176	\$ 1,151,839	\$ 570,223
Shares issued for mineral property at \$0.17 per share	200,000	34,000	-
Balance as at February 28, 2010	14,261,176	1,185,839	570,223
Shares issued in private placements	8,500,000	1,040,000	-
Share issuance costs		(68,672)	
Fair value of options granted	-	-	184,578
Fair value of agents' warrants		(23,860)	23,860
Balance as at February 28, 2011	22,761,176	\$ 2,133,307	\$ 778,661

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

During the year ended February 28, 2011, the Company:

- a) In May, 2010, the Company completed a non-brokered private placement in two separate tranches for a total of 2,500,000 common shares issued at \$0.20 per unit and 1,250,000 warrants for gross proceeds of \$500,000. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.30 per share for a period of up to two years from the date of the Private Placement.
- b) In February 2011, the Company completed a non-brokered private placement for a total of 6,000,000 common shares and 3,000,000 warrants for gross proceeds of \$540,000. Each warrant entitles the holder to purchase one common share of the Company at a price of \$0.15 per share for a period of up to two years from the date of the Private Placement. Finders' fees related to this financing were \$43,200. The Company also issued 600,000 finders' warrants exercisable at \$0.15 per share for a period of one year. The finders' warrants were valued at \$23,860 under the Black-Scholes option pricing model with assumptions of a discount rate of 1.73%, expected life of 1 year, expected volatility of 133.49% and expected dividend yield of 0.00% .

During the year ended February 28, 2010, the Company:

- a) issued 200,000 common shares at a fair value of \$34,000 per unit as per the Option Agreement on the KM Property.

Escrow Shares

There are no shares being held in escrow as at February 28, 2011.

6. STOCK OPTIONS AND WARRANTS

Stock options

The Company follows the policies of the TSX-V under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the policies, the exercise price of each option equals the market price or a discounted price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of five years. Vesting terms are determined by the Board of Directors at the time of grant.

Stock option transactions are summarized as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at February 28, 2009	912,500	\$ 0.21
Expired / Forfeited	(362,500)	0.25
Balance at February 28, 2010	550,000	0.18
Granted	1,850,000	0.16
Expired / Forfeited	(850,000)	0.18
Balance at February 28, 2011	1,550,000	\$ 0.16

6. STOCK OPTIONS AND WARRANTS (cont'd...)

- a) On March 9, 2010, the Company granted 450,000 stock options to senior officers and non-management directors. The options are exercisable at \$0.17 for a period of 5 years from the date of grant. The Company recorded an aggregate fair value of \$89,421 as stock based compensation in respect to this grant. Fair value was \$0.20 per option.
- b) On May 15, 2010, the Company granted 200,000 stock options at \$0.22 per share for a period of 1 year pursuant to the investor relations agreement with an outside consulting firm. The Company recorded an aggregate fair value of \$12,682 as stock based compensation in respect to this grant. 100,000 of the stock options expired unvested due to expiration of the IR agreement. Fair value was \$0.13 per option.
- c) On October 7, 2010, the Company granted 250,000 stock options to new directors and senior officers. The options are exercisable at \$0.15 for a period of 5 years from the date of grant. The Company recorded an aggregate fair value of \$37,747 as stock based compensation in respect to this grant. Fair value was \$0.15 per option.
- d) On February 2, 2011, the Company granted 450,000 stock options to a new director and a consultant at \$0.15 per share exercisable for a period of 5 years from the date of grant. The Company recorded an aggregate fair value of \$44,728 as stock based compensation in respect to this grant. Fair value was \$0.10 per option.
- e) On February 28, 2011, the Company granted 500,000 stock options to directors and officers of the Company and a consultant at \$0.15 per unit exercisable for a period of 5 years from the date of grant. These options vested 4 months from the date of grant.

The Company utilized the Black-Scholes option pricing model to calculate these amounts, using the following weighted average assumptions:

	2011	2010
Risk-free interest rate	2.66%	-
Expected life	4.68 years	-
Volatility	124.17%	-
Expected dividend yield	0.00%	-

6. STOCK OPTIONS AND WARRANTS (cont'd...)

As at February 28, 2011, the following stock options were outstanding:

Expiry date	Number of Options	Exercise price	Number of options exercisable
October 27, 2013	100,000	\$ 0.19	100,000
March 9, 2015	250,000	0.17	250,000
February 2, 2016	450,000	0.15	450,000
February 28, 2016	500,000	0.15	-
October 7, 2015	250,000	0.15	250,000
Outstanding	1,550,000	\$ 0.16	1,050,000

Warrants

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at February 28, 2009	4,806,175	\$ 0.30
Expired	(3,906,175)	0.25
Balance at February 28, 2010	900,000	0.25
Granted	4,850,000	0.19
Balance at February 28, 2011	5,750,000	\$ 0.20

The following warrants were outstanding at February 28, 2011:

Expiry date	Number of Warrants	Exercise price	Number of warrants exercisable
February 28, 2012	600,000	\$ 0.15	600,000
July 25, 2012	900,000	\$ 0.25	900,000
May 11, 2012	625,000	\$ 0.30	625,000
May 19, 2012	625,000	\$ 0.30	625,000
February 28, 2013	3,000,000	\$ 0.15	3,000,000
Outstanding	5,750,000		5,750,000

During the year ended February 28, 2011, the Company extended the 900,000 warrants outstanding as of February 28, 2010 for two years to a new expiry date of July 25, 2012 and amended the exercise prices from \$0.50 to \$0.25 per share.

7. RELATED PARTY TRANSACTIONS

During the year ended February 28, 2011, the Company entered into the following related party transactions:

- a) paid management fees of \$77,856 (2010 - \$61,555) to companies owned by directors and officers and former officer of the Company.
- b) paid accounting fees, which were included in profession fees, of \$16,640 (2010 - \$nil) to a company that is owned by a spouse of a director of the company.

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

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The fair value of cash, receivables and accounts payable and accrued liabilities approximate their carrying value due to their short-term maturity. The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

Assets	Level 1	Level 2	Level 3	Total
Cash	\$ 482,384	\$ -	\$ -	\$ 482,384

Risk Management

Industry Risk: The Company is engaged primarily in the mineral exploration field and manages related industry risk issues directly. The Company is potentially at risk for environmental reclamation and fluctuations in commodity based market prices associated with resource property interests. Management is of the opinion that the Company addresses environmental risk and compliance in accordance with industry standards and specific project environmental requirements.

8. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Risk Management (cont'd...)

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. The Company's primary exposure to credit risk is in its cash accounts and its receivables. This risk is managed through the use of a major bank which is a high credit quality financial institution as determined by rating agencies. The Company's receivables relate to GST/HST and mineral tax credits recoverable from the Governments of Canada and British Columbia. The risk associated with its receivables is minimal.

Currency Risk: Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. There is minimal foreign exchange risk to the Company. The Company does not engage in any hedging activities to reduce its foreign currency risk.

Interest Rate Risk: Interest rate risk refers to the risk that the fair values of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Company's exposure to interest rate risk relates to its ability to maintain the current rate of interest on its term deposits.

Liquidity Risk: Liquidity risk arises through the excess of financial obligations due over available financial assets at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available capital in order to meet its liquidity requirements. The Company's working capital as of February 28, 2011 is \$393,133.

Funding Risk: Funding risk is the risk that market conditions will impact the Company's ability to raise capital through equity markets under acceptable terms and conditions. Under current market conditions, both liquidity and funding risk are assessed as high.

9. CAPITAL MANAGEMENT

The Company considers its capital structure to be shareholders' equity represented by net assets over liabilities. The Company manages its capital structure based on the funds available to the Company, in order to support acquisition, maintenance, exploration, and development of mineral properties.

The Board of Directors has not established any quantitative return on capital criteria for management, instead relying on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has interests are in the exploration stage so the Company is dependent on external financing to fund its activities. In order to carry out activities and administration, the Company will spend its existing working capital and raise additional amounts as needed.

The Company is not subject to externally imposed capital restrictions.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	For the year ended February 28, 2011	For the year ended February 28, 2010
Cash paid for interest	\$-	\$21
Cash paid for income taxes	\$-	\$-

During the year ended February 28, 2011, the Company entered into the following non-cash transactions:

- a) Accounts payable related mineral property and deferred exploration costs was \$11,011.
- b) Issued 600,000 finders' warrants as finders' fees with valuation of \$23,860.

During the year ended February 28, 2010, the Company entered into the following non-cash transactions:

- a) The Company issued 200,000 common shares at a price of \$0.17 per common share for a fair value of \$34,000, pursuant to the acquisition of a mineral property.

11. INCOME TAXES

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

	2011	2010
Loss before income taxes	\$ (438,624)	\$ (185,718)
Expected income tax recovery	\$ (123,547)	\$ (55,251)
Permanent difference	52,344	12,465
Tax benefits of share issuance costs not recognized	(19,880)	-
Impact of change in tax rate	-	13,393
Change in valuation allowance	91,083	29,393
Total income tax recovery	\$ -	\$ -

11. INCOME TAXES (cont'd...)

The significant components of the Company's future income tax assets are as follows:

	2011	2010
Future income tax assets:		
Non-capital loss carry-forwards	\$ 277,000	\$ 187,000
Share issue costs	29,000	30,000
Mineral properties	(65,000)	(59,000)
Valuation allowance	<u>(241,000)</u>	<u>(158,000)</u>
Net future income tax assets	<u>\$ -</u>	<u>\$ -</u>

The Company has non-capital losses of \$1,109,000 which may be available to offset future income for income tax purposes which expire through 2031. Due to the uncertainty of realization of these losses, the benefit is not reflected in the financial statements as the Company has provided a full valuation allowance for the potential future tax assets resulting from these losses.

12. Write-off investment

On July 23, 2009, the Company entered into an agreement with a non-arm's length party to purchase an interest in certain oil and gas properties. The Company paid a \$25,000 deposit in accordance with the agreement and \$5,000 for legal fees. The transaction didn't proceed as expected. The Company wrote off the amount into expenses in fiscal 2010.

13. SUBSEQUENT EVENTS

- a) On April 27 2011, the Company signed an agreement with Q-Gold Resources ("Q-Gold") and World Fortune Enterprise Inc. ("WFEI"). WFEI has been granted an option by Q-Gold to acquire a 65% interest in the BLM Mining Claims in the Peck Mining District of Pavaipai County, Arizona. WFEI assigned the Company all of its rights and obligations under the BLM Option Agreement.

In consideration for the transfer of WFEI's right to the BLM Option Agreement, the Company will pay WFEI \$325,000 in cash or issue equivalent shares (paid \$25,000 cash in March 2011). The Company agreed to assume all of WFEI's obligations and agreed to incur work commitments in the aggregate of \$1,000,000 and to pay Q-Gold a total \$275,000 in cash and issue \$300,000 in shares. Completion of the transaction is subject to TSX Venture Exchange acceptance.

- b) In April, 2011, the Company granted 250,000 incentive stock options to the new President and CEO exercisable at \$0.19 per option for a period of five years.