

**CAVAN VENTURES INC.**

**Vancouver, B.C.**

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**CONSOLIDATED FINANCIAL STATEMENTS**

**February 28, 2010**

## AUDITORS' REPORT

To the Shareholders of  
Cavan Ventures Inc.

We have audited the consolidated balance sheet of Cavan Ventures Inc. as at February 28, 2010 and the consolidated statements of operations and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at February 28, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The audited consolidated financial statements at February 28, 2009 and for the year then ended were examined by other auditors who expressed an opinion without reservation on those statements in their report dated June 8, 2009.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

June 16, 2010





**CAVAN VENTURES INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT**  
**FOR THE YEARS ENDED FEBRUARY 28,**

	<b>2010</b>	<b>2009</b>
<b>EXPENSES</b>		
Audit fees	\$ 16,050	\$ 27,240
Bank charges and interest	1,164	7,036
Filing fees	10,614	23,060
Foreign exchange gain	(165)	(443)
Management fees – Cash (Note 8)	61,555	53,776
Office and miscellaneous	2,607	3,341
Professional fees	49,375	97,544
Property investigation	-	12,954
Stock-based compensation (Note 6 and 8)	-	41,394
Transfer agents fees	6,056	3,612
Travel	6,293	13,429
Telecommunications	1,923	1,530
<b>LOSS BEFORE OTHER ITEMS</b>	<b>( 155,472)</b>	<b>( 284,473)</b>
<b>OTHER ITEMS</b>		
Interest income	86	5,208
Write-off of investment (Note 13)	( 30,000)	-
Loss on winding up subsidiary	(332)	-
<b>Net Loss before income taxes</b>	<b>(185,718)</b>	<b>(279,265)</b>
Future income tax recovery	-	44,034
<b>NET LOSS</b>	<b>(185,718)</b>	<b>(235,231)</b>
<b>DEFICIT, BEGINNING</b>	<b>(783,862)</b>	<b>(548,631)</b>
<b>DEFICIT, ENDING</b>	<b>\$ (969,580)</b>	<b>\$ (783,862)</b>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<b>\$ (0.01)</b>	<b>\$ (0.02)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<b>14,068,299</b>	<b>13,327,375</b>

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

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

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (185,718)	\$ (235,231)
Items not involving cash:		
Loss on winding up subsidiary	332	-
Stock based compensation	-	41,394
Future income taxes	-	(44,034)
Changes in non-cash working capital items:		
Receivables	1,393	6,359
Prepaid expenses	(1,127)	5,067
Accounts payable and accrued liabilities	36,687	(4,555)
	<u>(148,433)</u>	<u>(231,000)</u>
Net cash used in operating activities	<u>(148,433)</u>	<u>(231,000)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of mineral property	(67,284)	(118,306)
Deferred exploration costs	(158,470)	(220,119)
Mining tax credit	21,218	-
	<u>(204,536)</u>	<u>(338,425)</u>
Net cash used in investing activities	<u>(204,536)</u>	<u>(338,425)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Share issuance costs	-	(28,948)
Issuance of common shares for cash	-	380,000
	<u>-</u>	<u>351,052</u>
Net cash provided by financing activities	<u>-</u>	<u>351,052</u>
<b>Change in cash</b>	<u>(352,969)</u>	<u>(218,373)</u>
<b>Cash, beginning of the year</b>	<u>360,223</u>	<u>578,596</u>
<b>Cash, ending of the year</b>	<u>\$ 7,254</u>	<u>\$ 360,223</u>

**Supplemental disclosure with respect to cash flows (Note 11)**

The accompanying notes are an integral part of these consolidated 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’s Initial Public Offering (the “Offering”) prospectus was filed with the British Columbia and Alberta Securities Commissions and became effective November 2, 2007. The Company’s stock commenced trading on the TSX Venture Exchange (“TSX-V”) on November 26, 2007.

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 consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles 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 and 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 both curtail expenditures and 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. SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of presentation**

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“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 (continued)**

### **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, the expected tax rates for future income tax recoveries 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 an 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 that 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 dependant 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 an 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.

### **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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### **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. An 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 an 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.

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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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.

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 9 for relevant disclosures.

### Foreign currency translation

These financial statements are presented in Canadian dollars. The Company's monetary assets and liabilities that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date. Non-monetary assets and liabilities are translated at exchange rates prevailing at the transaction date. Income and expenses are translated at rates which approximate those in effect on transaction dates. Gains and losses arising on translation are included in results of operations for the period.

## 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Changes in Accounting Policies

On March 1, 2009, the Company adopted the following new accounting standards related to financial instruments and goodwill and intangible assets that were issued by the CICA. These changes in accounting policies have been adopted on a prospective basis. At March 1, 2009, management determined there were no adjustments required to the Company's financial statements as a result of adopting these policies.

#### *Goodwill and Intangible Assets – Section 3064*

In February 2008, the CICA issued Section 3064, Goodwill and Intangible Assets, which replaced existing Section 3062, Goodwill and Other Intangible Assets, and Section 3450, Research and Development. The new standard provides guidance on the recognition, measurement, presentation and disclosure of goodwill and intangible assets. This standard is effective for interim and annual financial statements relating to fiscal years beginning on or after October 1, 2008.

### Recent accounting pronouncements

#### *International Financial Reporting Standards*

In 2006, the Canadian Accounting Standards Board (“AcSB”) published a strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian generally accepted accounting principles with International Financial Reporting Standards (“IFRS”) over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own generally accepted accounting principles. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of March 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition to IFRS has not yet been determined. Management plans for conversion include internal training, external consulting on complex issues, Board and Audit Committee oversight and the development of a conversion plan with impact assessments started in late 2009.

#### *Business Combinations – Section 1582*

In January 2009, the CICA issued Section 1582, Business Combinations, which will provide the Canadian equivalent to International Financial Reporting Standard IFRS 3, Business Combinations, and replace the existing Section 1581, Business Combinations. The new standard will apply prospectively to business combinations for which the acquisition date is on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1601, Consolidated Financial Statements and Section 1602, Non-controlling Interests. Management does not expect that the adoption of this new standard will have significant impact on the Company's financial statements.

**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Recent accounting pronouncements (continued)**

*Consolidated Financial Statements – Section 1601*

In January 2009, the CICA issued Handbook Section 1601, Consolidated Financial Statements, which establishes standards for the preparation of consolidated financial statements and will replace the existing Handbook Section 1600, Consolidated Financial Statements. The new standard is effective for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Handbook Section 1582, Business Combinations, and Handbook Section 1602, Non-Controlling Interests. Management does not expect that the adoption of this new standard will have significant impact on the Company's financial statements.

*Non-Controlling Interests – Section 1602*

In January 2009, the CICA issued Handbook Section 1602, Non-Controlling Interests, which establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of International Financial Reporting Standard IAS 27, Consolidated and Separate Financial Statements. The new standard is effective for interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, Business Combinations, and Section 1601, Consolidated Financial Statements. Management does not expect that the adoption of this new standard will have significant impact on the Company's financial statements.

**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 (previously called Emerald Property)	KM Property (also called Kisgegas Property)	Total
Balance at February 29, 2008	\$ 66,725	\$ 51,030	\$ 117,755
Additions:			
Cash	50,000	60,000	110,000
Tenure	3,946	4,360	8,306
Issuance of common shares	32,000	8,000	40,000
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

### 3. MINERAL PROPERTIES

#### **Kaslo Property (previously called Emerald Property)**

The Company entered into an option agreement and subsequent amendments to earn a 100% interest, subject to a 2% net smelter royalty (“NSR”), in the Kaslo Property located in British Columbia, by making the following payments:

- (a) Total cash payment of \$150,000, payable in 4 instalments on or before June 15, 2009. As of February 28, 2010, the Company has paid \$150,000 in full.
- (b) 200,000 common shares of the Company, to be issued in 3 tranches on or before June 15, 2008. As of February 28, 2009, the Company has issued 200,000 shares valued at \$45,750.
- (c) The Company is committed to incur exploration or development expenditures totalling \$250,000 on or before November 15, 2008. As of February 28, 2009, the Company has incurred all expenses required.

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.

On June 15, 2009, the Company made an advance NSR payment in cash of \$10,000.

#### **KM Property (“Kisgegas Property”)**

The Company entered into an option agreement and subsequent amendments to earn a 100% interest, subject to a 2% NSR, in the KM Property located in British Columbia, by making the following payments:

- (a) Total cash payment of \$195,000, \$85,000 of which has been paid in the prior year. The remaining \$110,000 is payable in 4 instalments: \$3,000 on or before February 12, 2010 (paid); \$3,500 on or before April 14, 2010 (paid); \$50,000 on or before May 14, 2010 (paid) and \$53,500 on or before June 14, 2010 (paid).
- (b) 365,000 common shares of the Company, to be issued on or before February 14, 2010. As of February 28, 2010, the Company has issued 365,000 shares valued at \$66,700.
- (c) The Company has committed to 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 (expended, see Note 4); an additional \$160,000 on or before October 15, 2010; and an additional \$165,000 on or before October 15, 2011.

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 each year until the property is placed in commercial production or abandoned by the Company, the Company shall pay \$25,000 in cash, or the equivalent in common shares of the Company, as an advance against the NSR to be paid on commercial production occurring.

**4. DEFERRED EXPLORATION COSTS**

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
<b>Kaslo Property</b>					
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
<b>KM Property</b>					
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

During the year ended February 28, 2009, the exploration expenditures on the Company's mineral properties were incurred as follows:

	Assays	Geological consulting	Field expenses	Mining credit recoverable	Total
<b>Kaslo Property</b>					
February 29, 2008	\$ 25,873	\$ 59,000	\$ 19,649	\$ -	\$ 104,522
Additions	73,153	28,171	118,795	(21,218)	198,901
February 28, 2009	\$99,026	\$87,171	\$138,444	\$(21,218)	\$303,423

CAVAN VENTURES INC.  
NOTES TO CONSOLIDATED THE FINANCIAL STATEMENTS  
FEBRUARY 28, 2010

**5. SHARE CAPITAL**

	Number of shares	Amount	Contributed surplus
Authorized			
Unlimited number of common shares without par value			
Issued			
Balance as at February 29, 2008	12,386,176	\$761,138	\$ 572,512
Fair value of director's options granted (Note 6)	-	-	12,310
Shares issued for mineral property at \$0.32 per share (a)	100,000	32,000	-
Private placement for shares at \$0.35 per share (b)	900,000	286,052	-
Warrants exercised for shares at \$0.10 per share (c)	425,000	42,500	-
Options exercised for shares at \$0.15 per share (d)	100,000	15,000	-
Fair value adjustments on options exercised	-	29,122	(29,122)
Options exercised for shares at \$0.15 per share (e)	50,000	7,500	-
Fair value adjustments on options exercised	-	14,561	(14,561)
Fair value of director's options granted (Note 6)	-	-	29,084
Taxable benefit from FT units renounced (Note 12)	-	(44,034)	-
Shares issued for mineral property at \$0.08 per share (f)	100,000	8,000	-
Balance as at February 28, 2009	14,061,176	1,151,839	570,223
Shares issued for mineral property at \$0.17 per share (g)	200,000	34,000	-
Balance as at February 28, 2010	14,261,176	\$1,185,839	\$ 570,223

- (a) On June 15, 2008, the Company issued 100,000 common shares at a fair value of \$32,000 as an option payment towards the Kaslo Property (Note 3).
- (b) On June 19, 2008, the Company completed a non-brokered private placement, by issuing 900,000 units at a price of \$0.35 per unit, for gross proceeds of \$315,000. A total of 483,900 FT shares were issued for total proceeds of \$169,365 and a total of 416,100 NFT shares were issued for total proceeds of \$145,635. Each of the units consists of either one FT share or one NFT common share, plus one NFT non-transferable share purchase warrant entitling the holder to purchase one additional common share at a price \$0.50 per share for a period of two years from the issue thereof. The fair value of the warrants has not been recorded as a separate component of shareholders' equity. In connection with the non-brokered private placement, the Company paid commissions and finders' fees to Fortune Creek Investments Inc. in an amount equal to 10% of the proceeds raised by them in this non-brokered private placement. The Company paid share issuance costs of \$28,948 in relation to the private placement. This included commissions and finders' fees in the amount of \$27,682 paid to Fortune Creek Investments Inc., being 10% of the proceeds raised by them in this non-brokered private placement.
- (c) In July 2008, 425,000 warrants were exercised at a price of \$0.10 per common share for gross proceeds of \$42,500.
- (d) In August 2008, 100,000 stock options were exercised at a price of \$0.15 per common share for gross proceeds of \$15,000.
- (e) In October 2008, 50,000 stock options were exercised at a price of \$0.15 per common share for gross proceeds of \$7,500.
- (f) On February 13, 2009, the Company issued 100,000 common shares at a fair value of \$8,000 as an option payment towards the KM Property (Note 3).
- (g) On February 15, 2010, the Company issued 200,000 common shares at a fair value of \$34,000 per unit as per Option Agreement with the KM Property (Note 3).

## **5. SHARE CAPITAL (continued)**

### **Escrow Shares**

1,447,504 shares are being held in escrow as at February 28, 2010.

### **Flow-through shares**

In accordance with accounting recommendations relating to the issuance of flow-through shares (Note 2), the Company reduced from flow-through share proceeds assigned to share capital and recognized a future tax liability of \$44,034 in the year ended February 28, 2009, the estimated tax effect of the timing difference resulting from renouncing exploration expenditures using currently enacted tax rates and laws.

Concurrently the Company recognized a future income tax recovery from the utilization of available tax losses of prior periods to offset the future tax liability recognized. The Company had not previously recognized tax benefits relating to losses of prior periods as the criteria for recognition had not been met (Note 12).

## **6. STOCK OPTIONS AND WARRANTS**

### **Stock options**

The Company follows the policies of the TSX-V under which it would be 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.

On May 8, 2008, the Company granted 50,000 stock options to a director of the Company. The options are exercisable at \$0.32 per share, on or before the date which is five years from the date of the grant. The Company recorded an aggregate fair value of \$12,310 as stock based compensation in respect to this grant.

On October 27, 2008, the Company granted 150,000 stock options to the directors of the Company. The options are exercisable at \$0.19 per share, on or before the date which is five years from the date of the grant. The Company recorded an aggregate fair value of \$29,084 as stock based compensation in respect to this grant.

There were no stock options granted in the year ended February 28, 2010.

**6. STOCK OPTIONS AND WARRANTS - Stock options (continued)**

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

	2010	2009
Risk-free interest rate	N/A	2.94% to 3.20%
Expected life	N/A	5 years
Volatility	N/A	97%
Expected dividend yield	N/A	0.00%

Stock option transactions are summarized as follows:

	Number of options	Weighted average exercise price
Balance as at February 29, 2008	862,500	\$0.19
Granted	200,000	0.22
Exercised	(150,000)	0.15
Balance as at February 28, 2009	912,500	0.21
Expired	(362,500)	0.25
Balance as at February 28, 2010	550,000	\$ 0.18

As at February 28, 2010, the following stock options were outstanding:

Expiry date	Number of Options	Weighted average exercise price	Number of options exercisable
November 26, 2012	350,000	\$ 0.15	350,000
May 8, 2013	50,000	\$ 0.32	50,000
October 27, 2013	150,000	\$ 0.19	150,000
Outstanding	550,000		550,000

**6. STOCK OPTIONS AND WARRANTS (continued)**

**Warrants**

Warrant transactions are summarized as follows:

	Number of warrants	Weighted average exercise price
Balance as at February 29, 2008	4,331,175	\$ 0.24
Granted	900,000	0.50
Exercised	(425,000)	0.10
Balance as at February 28, 2009	4,806,175	0.30
Expired	(3,906,175)	0.25
Balance as at February 28, 2010	900,000	\$ 0.50

The following warrants were outstanding at February 28, 2010:

Expiry date	Number of Warrants	Weighted average exercise price	Number of warrants exercisable
July 18, 2010	900,000	\$ 0.50	900,000
Outstanding	900,000		900,000

**7. CONTRIBUTED SURPLUS**

	February 28, 2010	February 28, 2009
Balance, beginning of year	\$ 570,223	\$ 572,512
Fair value of employees' stock options (Note 6)	-	41,394
Fair value of options exercised (Note 6)	-	(43,683)
Balance, end of year	\$ 570,223	\$ 570,223

## 8. RELATED PARTY TRANSACTIONS

During the year ended February 28, 2010, the Company recorded \$nil (2009 - \$41,394) of stock based compensation in management fees, which represents the fair value of nil (2009 - 200,000) stock options granted to directors of the Company (see Note 6). During the year ended February 28, 2010, the Company paid management fees in cash of \$61,555 (2009 - \$53,776) to the management 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.

## 9. 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	\$ 7,254	\$ -	\$ -	\$ 7,254

### 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.

*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 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.

**9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)**

**Risk Management (continued)**

*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.

*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.

**10. 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.

**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

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	For the year ended February 28, 2010	For the year ended February 28, 2009
Cash paid for interest	\$21	\$55
Cash paid for income taxes	-	-

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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 (see Note 3).

**11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (continued)**

During the year ended February 28, 2009, the Company entered into the following non-cash transactions:

- b. The Company issued 100,000 common shares at a price of \$0.32 per common share for a fair value of \$32,000, pursuant to the acquisition of a mineral property (see Note 3).
- c. The Company issued 100,000 common shares at a price of \$0.08 per common share for a fair value of \$8,000, pursuant to the acquisition of a mineral property (see Note 3).
- d. The Company accrued \$21,218 related to a mineral tax credit refund.

**12. INCOME TAXES**

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

	2010	2009
Loss before income taxes	\$ (185,718)	\$ (279,265)
Expected income tax recovery	\$ (55,251)	\$ (86,572)
Permanent difference	12,465	12,989
Tax benefits of share issuance costs not recognized	-	(7,526)
Impact of change in tax rate	13,393	25,343
Change in valuation allowance	<u>29,393</u>	<u>11,732</u>
Total income tax recovery	\$ -	\$ (44,034)

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

	2010	2009
Future income tax assets:		
Non-capital loss carryforwards	\$ 187,000	\$ 132,265
Share issue costs	30,000	45,844
Mineral properties	(59,000)	(99,003)
Valuation allowance	<u>(158,000)</u>	<u>(79,106)</u>
Net future income tax assets	\$ -	\$ -

The Company has non-capital losses of \$749,000 which may be available to offset future income for income tax purposes which expire through 2030. 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. INCOME TAXES (continued)**

During the year ended February 28, 2009, the Company renounced expenditures for income tax purposes to the flow-through investors, in respect of 483,900 flow-through shares issued as described in Note 5(b). An estimated future income tax liability of \$44,034 has been recognized in respect of the renounced expenditures. The tax benefit of the Company's available non-capital losses and other temporary differences exceed this estimated liability. Therefore, the Company has reduced its share capital balance and recorded a future income tax recovery in the amount of \$44,034.

**13. TRANSACTION NOT COMPLETED**

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 is currently demanding the return of the \$25,000 deposit. Due to the uncertainty of the collectability, the Company wrote off the amount into expenses.

**14. SUBSEQUENT EVENTS**

1) *Non-Brokered Private Placement*

On May 11, 2010, the Company announced that it has completed the first tranche of its non-brokered private placement financing with Pacific Wally Capital Inc. ("Pacific Wally"). The Company issued a total of 1,250,000 units at a price of \$0.20 per unit for gross proceeds of \$250,000 in this initial closing. Each of the units will consist of one common share, plus one half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price \$0.30 per share for a period of two years.

On May 19, 2010, the Company announced that it has completed the second and final tranche of its non-brokered private placement financing with Pacific Wally. The Company issued a total of 1,250,000 units at a price of \$0.20 per unit for gross proceeds of \$250,000 in this second closing. Each of the units will consist of one common share, plus one half of one non-transferable share purchase warrant. Each whole warrant entitles the holder to purchase one additional common share at a price \$0.30 per share for a period of two years.

2) *Granting of stock options*

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.