

**CAVAN VENTURES INC.**

**Vancouver, B.C.**

**UNAUDITED INTERIM FINANCIAL STATEMENTS**

**THREE MONTHS ENDED May 31, 2010**

**CAVAN VENTURES INC.**

**NOTICE OF NO AUDITOR REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim consolidated financial statements, they must be accompanied by a notice indicating that the consolidated financial statements have not been reviewed by an auditor.

The accompanying unaudited interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management. The Company's independent auditor has not performed a review of these consolidated financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim consolidated financial statements by an entity's auditor.

*"Ming Chiang"*

President and Chief Executive Officer of Cavan Ventures Inc.

*"Trevor Sinclair"*

Chief Financial Officer of Cavan Ventures Inc.

July 29, 2010

**CAVAN VENTURES INC.**  
**BALANCE SHEETS - UNAUDITED**  
**AS AT May 31, 2010**

	<b>Unaudited May 31, 2010</b>	<b>Audited February 28, 2010</b>
<b>ASSETS</b>		
<b>Current</b>		
Cash	\$ 380,651	\$ 7,254
Receivables	5,043	5,388
Prepaid expenses	8,247	1,127
	<u>393,941</u>	<u>13,769</u>
<b>Mineral properties</b> (Note 3)	430,845	377,345
<b>Deferred exploration costs</b> (Note 4)	461,893	461,893
	<u>\$ 1,286,679</u>	<u>\$ 853,007</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 55,918	\$ 66,525
<b>Shareholders' Equity</b>		
Share capital (Note 5)	1,663,101	1,185,839
Share purchase warrants (Note 5,6)	12,238	-
Contributed surplus (Note 5,6,7)	697,895	570,223
Deficit	(1,142,473)	(969,580)
	<u>1,230,761</u>	<u>786,482</u>
	<u>\$ 1,286,679</u>	<u>\$ 853,007</u>

**Nature of operations and Going Concern** (Note 1)  
**Commitments** (Note 12)  
**Subsequent events** (Note 13)

**Approved on behalf of the Board:**

\_\_\_\_\_ Director

\_\_\_\_\_ Director

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

**CAVAN VENTURES INC.**  
**STATEMENTS OF OPERATIONS AND DEFICIT - UNAUDITED**  
**FOR THE THREE MONTHS ENDED MAY 31,**

	<b>2010</b>	<b>2009</b>
<b>EXPENSES</b>		
Administration fees (Note 8)	\$ 5,887	\$ 706
Bank charges and interest	253	143
Filing fees	6,851	-
Foreign exchange gain	-	167
Management fees (Note 8)	15,000	15,000
Office and miscellaneous	267	303
Professional fees	11,497	2,050
Entertainment and Promotion	3,645	-
Stock-based compensation (Note 5,6 and 7)	127,672	-
Transfer agents fees	1,024	941
Travel	235	2,760
Telecommunications	563	354
<b>LOSS BEFORE OTHER ITEMS</b>	<b>( 172,894)</b>	<b>( 22,424)</b>
<b>OTHER ITEMS</b>		
Interest income	-	58
<b>Net Loss before income taxes</b>	<b>(172,894)</b>	<b>(22,366)</b>
Future income tax recovery	-	-
<b>NET LOSS</b>	<b>(172,894)</b>	<b>(185,718)</b>
<b>DEFICIT, BEGINNING</b>	<b>(969,579)</b>	<b>(783,862)</b>
<b>DEFICIT, ENDING</b>	<b>\$ (1,142,473)</b>	<b>\$ (806,228)</b>
<b>BASIC AND DILUTED LOSS PER COMMON SHARE</b>	<b>\$ (0.00)</b>	<b>\$ (0.00)</b>
<b>WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING</b>	<b>16,761,176</b>	<b>14,061,176</b>

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

**CAVAN VENTURES INC.**  
**STATEMENTS OF CASH FLOWS - UNAUDITED**  
**FOR THE THREE MONTHS ENDED MAY 31,**

	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss for the year	\$ (172,894)	\$ (22,366)
Items not involving cash:		
Stock based compensation (Note 7 & 8)	127,672	-
Changes in non-cash working capital items:		
Receivables	346	4,660
Prepaid expenses	(7,120)	-
Accounts payable and accrued liabilities	(10,607)	(14,786)
Net cash used in operating activities	<u>(62,603)</u>	<u>(32,492)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of mineral property (Note 3)	(53,500)	-
Deferred exploration costs	-	21,218
Net cash used in investing activities	<u>(53,500)</u>	<u>21,218</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Share issuance costs (Note 5 (j))	(10,500)	-
Proceeds on issuance of common shares and warrants for cash (Note 5(j))	500,000	-
Net cash provided by financing activities	<u>489,500</u>	<u>-</u>
<b>Change in cash</b>	<b>373,397</b>	<b>(11,274)</b>
<b>Cash, beginning of the year</b>	<b>7,254</b>	<b>360,223</b>
<b>Cash, ending of the year</b>	<b>\$ 380,651</b>	<b>\$ 348,949</b>

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

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

## **1. NATURE OF OPERATIONS AND GOING CONCERN**

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 unaudited 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**

These unaudited interim financial statements have been prepared by the Company in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). The preparation of financial data is based on accounting policies and practices consistent with those used in the preparation of the Company’s audited annual financial statements for the year ended February 28, 2010. The accompanying unaudited interim financial statements should be read in conjunction with the Company’s audited annual financial statements for the year ended February 28, 2010, as they do not contain all disclosures required by Canadian GAAP for annual financial statements.

In the opinion of management, all adjustments necessary to present fairly the financial position of the Company as at May 31, 2010 and results of its operations and cash flows for all periods presented have been made. The interim results are not necessarily indicative of results for a full year.

### 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 (previously 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
Additions:			
Cash		53,500	\$ 53,500
Balance at May 31, 2010	\$ 213,221	\$ 217,624	\$ 430,845

#### 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.

**3. MINERAL PROPERTIES (continued)**

**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. 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.

**4. DEFERRED EXPLORATION COSTS**

During the three months ended May 31, 2010, the Company did not incur any exploration expenditures on the Company’s mineral properties:

	Assays	Geological consulting	Field expenses	Mineral credit recoverable	Total
<b>Kaslo Property:</b>					
February 28, 2010	\$ 114,026	\$ 87,171	\$ 138,444	\$ (21,218)	\$ 318,423
Additions	-	-	-	-	-
May 31, 2010	114,026	87,171	138,444	(21,218)	318,423
<b>Kisgegas (KM) Property:</b>					
February 28, 2010	-	27,027	116,443	-	143,470
Additions	-	-	-	-	-
May 31, 2010	-	27,027	116,443	-	143,470
<b>Total May 31, 2010</b>	<b>\$ 114,026</b>	<b>\$ 114,198</b>	<b>\$ 254,887</b>	<b>\$ (21,218)</b>	<b>\$ 461,893</b>

**5. SHARE CAPITAL**

	Number of shares	Amount of Share Capital	Amount of Share purchase warrants	Contributed Surplus
Authorized				
Unlimited number of common shares without par				
Issued				
Balance at February 29, 2008	12,386,176	\$ 761,138	\$ -	\$ 572,512
Fair value of directors' options granted (Note 6)	-	-	-	12,310
Shares issued for mineral properties at \$.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
Fair value of options granted to directors and officers (h)	-	-	-	89,027
Fair value of options granted related to IR Agreement (i)	-	-	-	38,645
Shares issued (net of financing fees) for private placement financing (j)	2,500,000	477,262	12,238	-
Balance as at May 31, 2010	16,761,176	\$ 1,663,101	\$ 12,238	\$ 697,895

- (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.

## 5. SHARE CAPITAL (continued)

- (a) In October 2008, 50,000 stock options were exercised at a price of \$0.15 per common share for gross proceeds of \$7,500.
- (b) 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).
- (c) 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 (Note3).
- (d) 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.
- (e) On May 11 and May 19, 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 exercisable at \$0.30 per warrant for total gross proceeds of \$500,000. The warrants attached to the May 11, 2010 placement, have been valued at \$12,238 (\$12,500 net of proportionate share of issue costs - \$262) using the residual method. Costs related to the financing were netted from the proceeds as share issue costs, which include \$2,500 paid to TSX exchange, and legal costs related to the private placement of \$8,000, which were then adjusted for an allocation to the warrants of \$262 to net a total of \$477,262.
- (f) On May 15, 2010, the Company granted 200,000 stock options at a \$0.22 per share pursuant to the IR agreement with Buchalter Consulting Inc.

### Escrow Shares

723,752 shares are being held in escrow as at May 31, 2010.

## 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.

- (a) 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.
- (b) 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.
- (c) 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 \$89,027 as stock based compensation in respect to this grant.
- (d) On May 15, 2010, the Company granted 200,000 stock options at a \$0.22 per share pursuant to the IR agreement with an outside consulting firm. The Company recorded an aggregate fair value of \$38,645 as stock based compensation in respect to this grant.

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

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

	2011	2010
Risk-free interest rate	1.33% to 1.42%	N/A
Expected life	5 years	N/A
Volatility	123%	N/A
Expected dividend yield	0.00%	N/A

Stock option transactions are summarized as follows:

	Number of Stock Options	Weighted Average Exercise Price
Balance at February 29, 2008	862,500	\$ 0.19
Granted	200,000	0.22
Exercised	(150,000)	0.15
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	650,000	0.19
Expired / Forfeited	(250,000)	0.25
<b>Balance at May 31, 2010</b>	<b>950,000</b>	<b>\$ 0.19</b>

As at May 31, 2010, the following stock options were outstanding:

Expiry date	Number of Options	Weighted average exercise price	Number of options exercisable
November 26, 2012	100,000	\$ 0.15	100,000
May 8, 2013	50,000	\$ 0.32	50,000
October 27, 2013	150,000	\$ 0.19	150,000
March 9, 2015	450,000	\$ 0.17	450,000
May 15, 2015	200,000	\$ 0.22	200,000
<b>Outstanding</b>	<b>950,000</b>	<b>\$ 0.19</b>	<b>950,000</b>

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

**Warrants**

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance at February 29, 2008	4,331,175	0.24
Granted	900,000	0.50
Exercised	(425,000)	0.10
Balance at February 28, 2009	4,806,175	0.30
Expired	(3,906,175)	0.25
Balance at February 28, 2010	900,000	0.50
Granted	1,250,000	0.30
<b>Balance at May 31, 2010</b>	<b>2,150,000</b>	<b>0.50</b>

The following warrants were outstanding at May 31, 2010:

Expiry date	Number of Warrants	Weighted average exercise price	Number of warrants exercisable	Warrants Valuation
July 18, 2010	900,000	\$ 0.50	900,000	-
May 11, 2012	625,000	\$ 0.30	625,000	\$12,262
May 19, 2012	625,000	\$ 0.30	625,000	-
<b>Outstanding</b>	<b>2,150,000</b>		<b>2,150,000</b>	<b>\$12,262</b>

**7. CONTRIBUTED SURPLUS**

	May 31, 2010	February 28, 2010	February 28, 2009
Beginning Balance	570,223	570,223	572,512
Fair value of employees stock options	89,027		41,394
Fair value of consultants stock options	38,645		
Fair value of options exercised			(43,683)
<b>Ending Balance</b>	<b>697,895</b>	<b>570,223</b>	<b>570,223</b>

**8. RELATED PARTY TRANSACTIONS**

During the three months ended May 31, 2010, the Company recorded \$39,568 (2009 - \$nil) of stock based compensation in management fees, which represents the fair value of 200,000 of options granted (2009 - nil).

During the three months ended May 31, 2010, the Company paid management fees to a company solely owned by a director and officer of the company in cash of \$15,000 (2009 - \$15,000).

During the three months ended May 31, 2010, the Company paid administration fees to a company that is related to a director and officer of the company in cash of \$3,520 (2009 - \$nil).

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	\$ 380,651	\$ -	\$ -	\$ 380,651

**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.

*Liquidity Risk:* Liquidity risk arises through the excess of financial obligations due over available

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

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**

	For the three months ended May 31, 2010	For the three months ended May 31, 2009
Cash paid for interest	133	-
Cash paid for income taxes	-	-

During the three months ended May 31, 2010, the Company entered into the following non-cash transactions:

- a. On March 9, 2010, the Company granted 450,000 stock options to directors and management which was recorded as stock based compensation at an aggregate fair value of \$89,027 (see Note 5, 6 and 7).
- b. On May 15, 2010, the Company granted 200,000 stock options to an outside IR consulting company, pursuant to the IR agreement signed in May 15, 2010 at an aggregate fair value of \$38,645 (see Note 5,6 and 7).

## 12. COMMITMENTS

The Company has commitments related to the option agreement for KM Property (Note 3 (C)), the Company is obligated to make an instalment payment of \$160,000 no later than October 15, 2010, and a final payment of \$165,000 no later than October 15, 2011. Regarding the Kaslo property, on the anniversary from June 15, 2009 thereof each year until on the 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 (Note 3). In addition, the Company entered into administrative commitments summarized as per the following:

May 31,	Mineral Property	Administrative	Total
2011	\$ 170,000	20,050	\$ 190,050
2012	175,000	-	175,000
Total	\$ 345,000	20,050	\$ 365,050

## 13. SUBSEQUENT EVENTS

On July 12, 2010, the Company announced the intention to amend the terms of 900,000 common share purchase warrants (the "Warrants") of the Corporation exercisable at \$0.50 per share until July 25, 2010 detailed in Cavan's news releases dated June 13, 2008 and July 24, 2008. The exercise price of the amended Warrants (the "Amended Warrants") is to be replaced with new exercise price of \$0.25 per share and two year terms. This amendment has been approved by the exchange as of July 20, 2010.

The Company will commence its 2010 summer exploration program in August, the forecasted amount as of July 29, 2010 will be more than the budgeted amount of \$160,000 indicated in the option agreement, due to the Company's intention of aggressive exploration plan. In addition, the Company plans to complete the exploration program ahead of the schedule date.

## 14. COMPARATIVE FIGURES

Certain of the comparative figures have been reclassified to conform to the current year's.