

**CAVAN VENTURES INC.**

Vancouver, B.C.

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**CONSOLIDATED FINANCIAL STATEMENTS**

**Three Months Ended May 31, 2009**

(Expressed in Canadian dollars, except where indicated)

**CONSOLIDATED BALANCE SHEETS**

**CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**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.

*"Benjamin Wong"*  
Chief Financial Officer of Cavan Ventures Inc.

July 24<sup>th</sup>, 2009

**CAVAN VENTURES INC.**  
**CONSOLIDATED BALANCE SHEETS - UNAUDITED**  
**AS AT MAY 31, 2009**

	Unaudited May 31, 2009	Audited February 28, 2009
	\$	\$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents (Note 2)	348,949	360,223
Accounts receivable	2,121	6,781
Mineral tax credit recoverable	-	21,218
	<u>351,070</u>	<u>388,222</u>
Mineral properties (Note 3)	276,061	276,061
Deferred exploration costs (Note 4)	303,423	303,423
	<u>930,554</u>	<u>967,706</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities	14,720	29,506
	<u>14,720</u>	<u>29,506</u>
<b>Shareholders' Equity</b>		
Capital stock (Note 5)	1,151,839	1,151,839
Contributed surplus (Notes 5, 6 and 7)	570,223	570,223
Deficit	(806,228)	(783,862)
	<u>915,834</u>	<u>938,200</u>
	<u>930,554</u>	<u>967,706</u>

Nature and continuance of operations (Note 1)  
 Commitments (Note 3)

**Approved on behalf of the Board:**

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 "Ming Chiang" Director "Benjamin Wong" Director

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

**CAVAN VENTURES INC.**

**CONSOLIDATED STATEMENTS OF LOSS, COMPREHENSIVE LOSS AND DEFICIT - UNAUDITED  
FOR THE THREE MONTHS ENDED MAY 31, 2009**

	For the three months ended May 31, 2009 \$	For the three months ended May 31, 2008 \$
<b>Expenses</b>		
Audit fees	-	5,000
Filing fees	-	200
Management fees - Cash (Note 8)	15,000	8,136
Management fees - Stock-based compensation (Notes 5, 6 and 8)	-	12,309
Office and miscellaneous	303	731
Professional fees	2,756	5,119
Telecommunications	354	48
Transfer agent fees	941	667
Travel, board and lodging	2,760	3,796
Bank charges and interest	143	192
Exchange loss / (gain)	167	-
<b>Loss before other item</b>	<u>(22,424)</u>	<u>(36,198)</u>
<b>Other item</b>		
Interest income	58	2,167
<b>Net loss</b>	<u>(22,366)</u>	<u>(34,031)</u>
<b>Deficit - Beginning</b>	<u>(783,862)</u>	<u>(548,631)</u>
<b>Deficit - Ending</b>	<u><u>(806,228)</u></u>	<u><u>(582,662)</u></u>
<b>Basic and diluted loss per common share</b>	<u><u>(0.00)</u></u>	<u><u>(0.00)</u></u>
<b>Weighted average number of common shares outstanding - basic and diluted</b>	<u>14,061,176</u>	<u>12,386,176</u>

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

**CAVAN VENTURES INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS - UNAUDITED**  
**FOR THE THREE MONTHS ENDED MAY 31, 2009**

	For the three months ended May 31, 2009 \$	For the three months ended May 31, 2008 \$
<b>Cash flows from operating activities</b>		
Net loss for the period	(22,366)	(34,031)
Item not affecting cash		
Stock-based compensation (Note 6)	-	12,309
	<u>(22,366)</u>	<u>(21,722)</u>
Changes in non-cash working capital		
Accounts receivable	4,660	12,837
Prepaid expenses	-	(124,965)
Accounts payable and accrued liabilities	(14,786)	(14,911)
	<u>(32,492)</u>	<u>(148,761)</u>
<b>Cash flows from investing activities</b>		
Acquisition of mineral property (Note 3)	-	(200)
Deferred exploration costs (Note 4)	21,218	-
	<u>21,218</u>	<u>(200)</u>
<b>Increase / (Decrease) in cash</b>	<b>(11,274)</b>	<b>(148,961)</b>
<b>Cash - Beginning</b>	<b>360,223</b>	<b>578,596</b>
<b>Cash - Ending</b>	<b>348,949</b>	<b>429,635</b>

Supplemental cash flow information (Note 10)

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. Pursuant to the Offering, the Company raised \$603,750 by issuing 2,625,000 non-flow-through units (the “NFT units”) and 1,400,000 flow-through units (the “FT units”) at a price of \$0.15 per unit on November 20, 2007 (Note 5 (f)) and 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 on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing to develop its mineral properties, and to commence profitable operations in the future. To date the Company has not generated any significant revenues and is considered to be in the exploration stage.

Management is also aware that material uncertainties exist, related to current economic conditions, which could adversely affect the Company’s ability to continue to finance its activities. Management’s plan include continuing to pursue additional sources of financing through equity offerings, seeking joint venture partners to fund exploration, monitoring exploration activity and reducing overhead costs. As a result of the implementation, management expects that the Company will have sufficient capital to fund operations and keep its mineral properties in good standing for the upcoming fiscal year.

These consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### **Basis of presentation**

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are presented in Canadian dollars.

### **Basis of consolidation**

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Fast Bridge Limited, incorporated on April 18, 2008 in the British Virgin Islands. All intercompany accounts and transactions have been eliminated on consolidation.

**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.

**Cash and cash equivalents**

Cash and cash equivalents include highly liquid investments with original maturities of three months or less.

Cash and cash equivalents consists of	May 31, 2009	February 28, 2009
Cash	\$ 158,514	\$ 169,841
Short-term deposits	190,435	190,382
Cash and cash equivalents	\$ 348,949	\$ 360,223

**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.

## **SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **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.

### **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. 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.

## **SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Share capital - flow-through shares (continued)**

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**

Effective March 1, 2007, the Company adopted CICA Handbook Sections 3855, and 3861, “Financial instruments”; and Section 3856, “Hedges”. Section 3855 prescribes when a financial instrument is to be recognized on the balance sheet and at what amount. Under Section 3855, financial instruments must be 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 and cash equivalents, accounts receivable and accounts payable. Cash and cash equivalents are measured at face value, representing fair value, and are classified as held-for-trading. Accounts receivable, which is measured at amortized cost, is classified as loans and receivables. Accounts payable is measured at amortized cost and is 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.

## **SIGNIFICANT ACCOUNTING POLICIES (continued)**

### **Comprehensive income**

On March 1, 2007, the Company adopted CICA Handbook Section 1530, "Comprehensive Income". Section 1530 establishes standards for the reporting and presenting of comprehensive income which is defined as the change in equity from transactions and other events from non-owner sources. Other comprehensive income refers to items recognized in comprehensive income that are excluded from net loss. At May 31, 2009 and 2008 the Company had no significant items that caused other comprehensive loss to be different than net loss.

### **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.

### **Changes in Accounting Policies**

On March 1, 2008, the Company adopted the following new accounting standards related to financial statement presentation, capital disclosures, and financial instrument disclosures and presentation that were issued by the CICA. These changes in accounting policies have been adopted on a prospective basis. At March 1, 2008, management determined there were no adjustments required to the Company's financial instruments as a result of adopting these policies.

#### **Accounting Changes – CICA Handbook Section 1506**

This standard establishes criteria for changes in accounting policies, accounting treatment and disclosure regarding changes in accounting policies, estimates and corrections of errors. In particular, this section allows for voluntary changes in accounting policies only when they result in the financial statements providing reliable and more relevant information. This section requires changes in accounting policies to be applied retrospectively unless doing so is impracticable.

#### **Capital Disclosures – CICA Handbook Section 1535**

This section specifies the disclosure of (i) an entity's objectives, policies and processes for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has not complied with any capital requirements; and (iv) if it has not complied, the consequences of such noncompliance. The Company has included disclosures recommended by this new section in Note 9 to these financial statements.

#### **Financial Instruments – Disclosures, CICA Handbook Section 3862, and Financial Instruments – Presentation, CICA Handbook Section 3863**

These new standards, which replaced Section 3861 – Disclosure and Presentation, revise and enhance disclosure requirements while carrying forward presentation requirements. These new sections will place increased emphasis on disclosure about the nature and extent of risks arising from financial instruments and how the entity manages those risks. The Company has included disclosure recommended by these new sections in Note 9.

### **SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### Going Concern – CICA Handbook Section 1400

In June 2007, the CICA modified section 1400 “General Standards of Financial Statement Presentation” in order to require that management make an assessment of the Company’s ability to continue as a going concern over a period which is at least, but not limited to, twelve months from the balance sheet date. These new requirements have been disclosed in Note 1 to these financial statements.

#### Mining Exploration Costs – EIC 174

In March 2009 the CICA approved EIC 174, Mining Exploration Costs. The guidance clarified that an enterprise that has initially capitalized exploration costs has an obligation in the current and subsequent accounting periods to test such costs for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. This guidance did not have any impact on the Company’s financial statements.

### **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 January 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 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 starting in late 2009.

#### 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. Management does not expect that the adoption of this new standard will have significant impact on the Company’s financial statements.

### **SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **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.

#### **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.

#### **Credit Risk and the Fair Value of Financial Assets and Financial Liabilities – EIC 173**

In January 2009, the CICA approved EIC 173, Credit Risk and the Fair Value of Financial Assets and Liabilities. This guidance clarified that an entity's own credit risk and the credit risk of the counterparty should be taken into account in determining the fair value of financial assets and financial liabilities including derivative instruments. This guidance is applicable to fiscal periods ending on or after January 12, 2009. Management does not expect that the adoption of this new standard will have significant impact on the Company's financial statements.

**3. MINERAL PROPERTIES**

	Kaslo Property (previously called Emerald Property)	Kisgegas Property	Total
Balance at February 29, 2008	\$ 66,725	\$ 51,030	\$ 117,755
Additions:			
Cash	53,946	64,360	118,306
Issuance of common shares	32,000	8,000	40,000
Balance at February 28, 2009	152,671	123,390	276,061
Balance at May 31, 2009	\$ 152,671	\$ 123,390	\$ 276,061

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)**

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 installments: \$25,000 was paid upon execution of the option agreement; \$25,000 was paid within 2 weeks following the date upon which the Company’s common shares were listed for trading on the TSX-V on November 26, 2007; \$50,000 was paid on June 15, 2008; and \$50,000 to be paid on or before June 15, 2009 (paid subsequent to May 31, 2009).
- (b) 200,000 common shares of the Company, to be issued as follows: 25,000 shares upon delivery of a budget and exploration program (issued at a fair value of \$2,500); 75,000 shares upon the Company commencing trading on the TSX-V (issued at a fair value of \$11,250); and 100,000 shares on June 15, 2008 (issued at a fair value of \$32,000).
- (c) The Company is committed to incur exploration or development expenditures totaling \$250,000 on the property as follows: at least \$100,000 in expenditures on or before November 15, 2006 (expended, see Note 4) and a cumulative total of at least \$250,000 in expenditures on or before November 15, 2008 (expended, see Note 4).

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.

During the three months ended May 31, 2009, the Company also paid nil (year ended February 28, 2009 - \$3,946) in tenure fees on the Kaslo Property.

**MINERAL PROPERTIES (continued)**

**Kisgegas Property (“KM Property”)**

The Company entered into an option agreement 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, payable in three installments: \$25,000 was paid upon regulatory approval of the Property Option Agreement; \$60,000 was paid on February 13, 2009; and \$110,000 will be paid on or before February 14, 2010.
- (b) 365,000 common shares of the Company, to be issued as follow: 65,000 shares upon receipt of regulatory approval of the option agreement (issued at a fair value of \$24,700); 100,000 shares on February 13, 2009 (issued at a fair value of \$8,000); and 200,000 shares on or before February 14, 2010.
- (c) The Company has committed to incur exploration or development expenditures totaling \$450,000 on the property as follows: at least \$125,000 in expenditures on or before October 15, 2009; 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.

During the three months ended May 31, 2009, the Company also paid nil (year ended February 28, 2009 - \$4,361) in tenure fees on the KM property.

**4. DEFERRED EXPLORATION COSTS**

The following exploration expenses were incurred on the Kaslo Property (previously called Emerald Property) during the three months ended May 31, 2009 and year ended February 28, 2009:

	Assays	Geological consulting	Field expenses	Mineral tax credit recoverable	Total
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
May 31, 2009	\$ 99,026	\$ 87,171	\$ 138,444	\$ (21,218)	\$ 303,423

The Company did not incur any deferred exploration expenses for the KM property.

## 5. SHARE CAPITAL

	Number of shares	Amount	Share issuance costs	Contributed surplus	Total
Authorized					
Unlimited number of common shares without par value					
Issued					
Balance as at February 29, 2008	12,386,176	\$ 1,083,315	\$ (322,177)	\$ 572,512	\$ 1,333,650
Fair value of director's options granted (Note 6)	-	-	-	12,310	12,310
Shares issued for mineral property at \$0.32 per share (a)	100,000	32,000	-	-	32,000
Private Placement for shares at \$0.35 per share (b)	900,000	315,000	(28,948)	-	286,052
Warrants exercised for shares at \$0.10 per share (c)	425,000	42,500	-	-	42,500
Options exercised for shares at \$0.15 per share (d)	100,000	15,000	-	-	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	-	-	7,500
Fair value adjustments on options exercised	-	14,561	-	(14,561)	-
Fair value of director's options granted (Note 6)	-	-	-	29,084	29,084
Taxable benefit from FT units renounced (Note 11)	-	(44,034)	-	-	(44,034)
Shares issued for mineral property at \$0.08 per share (f)	100,000	8,000	-	-	8,000
Balance as at February 28, 2009	14,061,176	\$ 1,502,964	\$ (351,125)	\$ 570,223	\$ 1,722,062
Balance as at May 31, 2009	14,061,176	\$ 1,502,964	\$ (351,125)	\$ 570,223	\$ 1,722,062

- (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 proceed of \$169,365 and total of 416,100 NFT shares were issued for total proceed of \$145,635. Each of the units consist 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).

## **SHARE CAPITAL (continued)**

### **Escrow Shares**

2,895,004 shares are being held in escrow as at May 31, 2009.

### **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 11).

## **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.

Upon the initial listing date, the Company granted 500,000 stock options to the management and directors of the Company. The options are exercisable at \$0.15 per share, on or before the date which is five years from the date that the Company's common shares are listed for trading on the TSX-V. The Company recorded an aggregate fair value of \$145,608 as stock based compensation, during the year ended February 29, 2008, in respect to these grants.

On November 20, 2007, the Company recorded a share issue cost of \$66,904 in respect to the fair value associated with the Agent's option to acquire up to 362,500 shares at \$0.25 for a period of 18 months from the listing date. These options expired unexercised.

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.

No stock-based compensation was recorded in the three months ended May 31, 2009 as the measurement date for these stock options were based on the date of listing of the Company's shares on the Canadian Exchange, which is not yet determined.

**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 Q1	2009
Risk-free interest rate	Nil	2.94% to 3.20%
Expected life	Nil	5 years
Volatility	Nil	97%
Expected dividend yield	Nil	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
Forfeited	(362,500)	0.25
Balance as at May 31, 2009	550,000	\$ 0.18

As at May 31, 2009, the following stock options were outstanding:

Expiry date	Number of options	Weighted average remaining contractual life	Weighted average exercise price	Number of options exercisable
November 26, 2012	350,000	3.49	\$ 0.15	350,000
May 8, 2013	50,000	3.94	0.32	50,000
October 27, 2013	150,000	4.41	0.19	150,000
Outstanding	550,000	3.78	\$ 0.18	550,000

**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 May 31, 2009	900,000	\$ 0.50

The following warrants were outstanding at May 31, 2009:

Expiry date	Number of options	Weighted average remaining contractual life	Weighted average exercise price
July 18, 2010	900,000	1.13	0.50

**7. CONTRIBUTED SURPLUS**

	May 31, 2009	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 5)	-	(43,683)
Balance, end of year	\$ 570,223	\$ 570,223

## 8. RELATED PARTY TRANSACTIONS

During the three months ended May 31, 2009, the Company recorded nil (2009 - \$12,309) of stock based compensation in management fees, which represents the fair value of nil (2009 - 50,000) stock options granted to director of the Company (see Note 6). During the three months ended May 31, 2009, the Company paid management fees in cash of \$15,000 (2009 - \$8,136) 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. MANAGEMENT OF CAPITAL AND RISK MANAGEMENT

### **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 rate. 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 and Funding 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 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.

## MANAGEMENT OF CAPITAL AND RISK MANAGEMENT (continued)

### 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 three months ended May 31, 2009	For the three months ended May 31, 2008
Cash paid for interest	\$	-	\$ 55
Cash paid for income taxes	\$	-	-

During the three months ended May 31, 2009, the Company did not enter into any non-cash transactions.

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

- 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).
- 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).
- The Company accrued \$21,218 related to a mineral tax credit refund.

**11. INCOME TAXES**

The Company has non-capital losses of \$508,711 which may be available to offset future income for income tax purposes which expire as follows.

2027	\$	64,674
2028		149,828
2029		294,209
	\$	508,711

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.

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 share issued as described in Note 5(b). An estimated future income tax liability of \$44,034 has been recognized in respect to 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.

**12. COMPARATIVE FIGURES**

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.