MEGASTAR DEVELOPMENT CORP.

FINANCIAL STATEMENTS

February 28, 2010 and 2009

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Auditors' Report

To the Shareholders of
Megastar Development Corp.

We have audited the balance sheets of Megastar Development Corp. as at February 28, 2010 and 2009 and the statements of operations and deficit and cash flows for the years 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 audits.

We conducted our audits 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 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

(signed) "BDO CANADA LLP"

Chartered Accountants

Vancouver, British Columbia
June 24, 2010

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MEGASTAR DEVELOPMENT CORP.
BALANCE SHEETS
February 28, 2010 and 2009

ASSETS	2010	2009
Current		
Cash and cash equivalents	$ 347,410	$ 230,918
Marketable securities	164,000	18,000
Taxes recoverable	5,492	-
Prepaid expenses and deposits	47,789	5,074
	564,691	253,992
Equipment – Note 5	1,512	1,957
Mineral properties – Note 4 and Schedule 1	1,122,415	1,433,645
	$ 1,688,618	$ 1,689,594
LIABILITIES		
Current		
Accounts payable and accrued liabilities – Notes 7, 8 and 9	$ 424,594	$ 198,269
Due to related parties – Note 7	46,500	42,400
	471,094	240,669
SHAREHOLDERS' EQUITY		
Share capital – Note 6	8,549,397	8,169,438
Contributed surplus – Note 6	434,155	416,604
Deficit	(7,766,028)	(7,137,117)
	1,217,524	1,448,925
	$ 1,688,618	$ 1,689,594

Nature of Operations and Ability to Continue as a Going Concern – Note 1
Commitments and Contingencies – Notes 6, 8 and 9
Subsequent Events – Notes 4, 6 and 13

APPROVED BY THE DIRECTORS:

"Dusan Berka" Director — Dusan Berka

"Gary Musil" Director — Gary Musil

SEE ACCOMPANYING NOTES

MEGASTAR DEVELOPMENT CORP.
STATEMENTS OF OPERATIONS AND DEFICIT
for the years ended February 28, 2010 and 2009

	2010	2009
Expenses		
Accounting and audit fees	$ 28,817	$ 41,998
Administrative fees – Note 7	4,275	10,410
Amortization	445	629
Bank charges and interest	1,759	610
Consulting fees – Note 7	105,770	52,962
Exploration expense	1,130	8,322
Filing fees	11,415	3,895
Insurance	14,254	15,104
Investor relations and promotion	40,586	43,493
Legal fees	3,133	9,802
Management fees – Note 7	124,000	148,707
Office, telephone and miscellaneous – Note 7	9,331	19,033
Rent – Note 7	11,175	11,702
Shareholder information	12,633	11,225
Stock-based compensation – Note 6	38,310	64,340
Transfer agent fees	6,203	8,210
Travel	15,590	37,767
Loss before other items	(428,826)	(488,209)
Other items:		
Interest income	775	5,634
Interest and penalties – Note 8	(290,610)	-
Unrealized gain (loss) on marketable securities	89,750	(83,000)
Net loss and comprehensive loss for the year	(628,911)	(565,575)
Deficit, beginning of year	(7,137,117)	(6,571,542)
Deficit, end of the year	$ (7,766,028)	$ (7,137,117)
Basic and diluted loss per share	$ (0.02)	$ (0.02)
Weighted average number of shares outstanding	33,049,562	29,937,233

MEGASTAR DEVELOPMENT CORP.
STATEMENTS OF CASH FLOWS
for the years ended February 28, 2010 and 2009

	2010	2009
Operating Activities		
Net loss for the year	$ (628,911)	$ (565,575)
Items not involving cash:		
Amortization	445	629
Stock-based compensation	38,310	64,340
Unrealized (gain) loss on marketable securities	(89,750)	83,000
	(679,906)	(417,606)
Changes in non-cash working capital items:		
Taxes recoverable	(5,492)	22,263
Prepaid expenses and deposits	(42,715)	8,197
Accounts payable and accrued liabilities	226,325	7,849
Due to related parties	4,100	30,900
	(497,688)	(348,397)
Financing Activity		
Issue of common shares	359,200	-
Investing Activity		
Mineral properties, net	254,980	(86,218)
Increase (decrease) in cash during the year	116,492	(434,615)
Cash and cash equivalents, beginning of the year	230,918	665,533
Cash and cash equivalents, end of the year	$ 347,410	$ 230,918
Cash and cash equivalents consist of:		
Cash	$ 47,410	$ 29,845
Term deposits	300,000	201,073
	$ 347,410	$ 230,918
Supplemental disclosure of cash flow information:		
Cash paid for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

Non-cash Transactions – Note 10

SEE ACCOMPANYING NOTES

Schedule 1

MEGASTAR DEVELOPMENT CORP.
SCHEDULE OF MINERAL PROPERTIES
for the years ended February 28, 2010 and 2009

	Canada				
	Sedex Zinc Property	Simkar	Ralleau Project	Exploration Advance	Total
Balance, February 29, 2008	$ 148,553	$ 791,709	$ 305,502	$ 44,120	$ 1,289,884
Acquisition costs	-	-	6,012	-	6,012
Deferred exploration costs					
Assay	60	3,154	2,323	-	5,537
Geological	-	81,236	55,797	-	137,033
Geophysics	-	-	314,192	-	314,192
Reports and field	20	20,937	15,380	-	36,337
Trenching	-	11,444	-	-	11,444
Quebec mining tax credit received	-	(263,684)	(48,990)	-	(312,674)
	80	(146,913)	338,702	-	191,869
Option payments received					
Cash	(10,000)	-	-	-	(10,000)
Advances used on exploration expenditures	-	-	-	(44,120)	(44,120)
Balance, February 28, 2009	$ 138,633	$ 644,796	$ 650,216	$ -	$ 1,433,645

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SEE ACCOMPANYING NOTES

Schedule 1
Continued

MEGASTAR DEVELOPMENT CORP.
SCHEDULE OF MINERAL PROPERTIES
for the years ended February 28, 2010 and 2009

	Canada			
	Sedex Zinc Property	Simkar	Ralleau Project	Total
Balance, February 28, 2009	$ 138,633	$ 644,796	$ 650,216	$ 1,433,645
Acquisition costs	-	-	6,439	6,439
Deferred exploration costs				
Assay	-	-	-	-
Geological	-	3,200	-	3,200
Geophysics	-	-	-	-
Miscellaneous	-	(74)	-	(74)
Reports and field	-	56	-	56
Taxes and assessment fees	-	7,897	-	7,897
Trenching	-	-	-	-
Quebec mining tax credit received	-	-	(222,498)	(222,498)
	-	11,079	(222,498)	(211,419)
Option payments received				
Cash	-	(50,000)	-	(50,000)
Shares	-	(56,250)	-	(56,250)
	-	(106,250)	-	(106,250)
Balance, February 28, 2010	$ 138,633	$ 549,625	$ 434,157	$ 1,122,415

SEE ACCOMPANYING NOTES

Note 1 Nature of Operations and Ability to Continue as a Going Concern

The Company, incorporated in British Columbia, is an exploration stage public Company listed on the TSX Venture Exchange. The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of amounts shown for mineral properties is dependant upon the discovery of economically recoverable reserves and confirmation of the Company's interest in the underlying properties, the ability of the Company to obtain necessary financing to satisfy the expenditure requirements under mineral property agreements and to complete the development of the properties, and upon future profitable production or the sale thereof.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. At February 28, 2010, the Company had not yet achieved profitable operations. The Company has accumulated losses of $7,766,028 since its inception and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. The Company's ability to continue as a going concern is dependent upon its ability to generate and maintain future profitable operations and/or to obtain the necessary financing to meet its obligations and repay its liabilities arising from normal business operations when they come due. Management has no formal plan in place to address this concern but considers that the Company will be able to obtain additional funds by equity financing and/or related party advances; however there is no assurance of additional funding being available.

Note 2 Summary of Significant Accounting Policies

The financial statements of the Company have been prepared in accordance with generally accepted accounting principles in Canada and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates, which have been made using careful judgement. Actual results may differ from these estimates.

The financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

Note 2 Summary of Significant Accounting Policies – (cont'd)

a) Equipment and Amortization

Equipment is recorded at cost and amortized over its estimated useful life by the declining balance method using the following annual rate:

Office equipment	30%

Additions during the year are amortized at one-half of the annual rate.

b) Mineral Properties

The Company defers the cost of acquiring, maintaining its interest, exploring and developing mineral properties until such time as the properties are placed into production, abandoned, sold, or considered to be impaired in value. Costs of producing properties will be amortized on a unit of production basis and costs of abandoned properties are written off. Proceeds received on the sale of interests in mineral properties are credited to the carrying value of the mineral properties, with any excess included in operations. Write-downs due to impairment in value are charged to operations.

The Company is in the process of exploring and developing its mineral properties and has not yet determined the amount of reserves available. Management reviews the carrying value of mineral properties on a periodic basis and will recognize impairment in value based upon current exploration results, the prospect of further work being carried out by the Company, the assessment of future probability of profitable revenues from the property or from the sale of the property. Amounts shown for mineral properties represent costs incurred net of write-downs and recoveries, and are not intended to represent present or future values.

c) Basic and Diluted Loss per Share

Basic loss per share is calculated by dividing the net loss for the year available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive. Basic and diluted loss per share are the same for the years presented. The weighted average number is retroactively adjusted for any share consolidations subsequent to the year-end.

For the years ended February 28, 2010 and 2009, potentially dilutive common shares (relating to options and warrants outstanding at February 28, 2010 and 2009) totalling 8,075,000 (2009 - 2,350,000) were not included in the computation of diluted loss per share because their effect would have been anti-dilutive.

Note 2 Summary of Significant Accounting Policies – (cont'd)

d) Cash and Cash Equivalents

Cash and cash equivalents include cash on deposit with banks or highly liquid short-term, interest-bearing securities that are readily convertible to known amounts of cash, have maturities of three months or less when acquired and which are subject to an insignificant risk of changes in value.

e) Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. There has been no impairment of the Company's long-lived assets at February 28, 2010 and 2009.

f) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets are recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which is included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. The Company does not have any asset retirement obligations as at February 28, 2010 and 2009.

g) Flow-through Shares

Upon renunciation to the shareholders, the Company will reduce share capital and recognize a temporary future income tax liability for the amount of tax reduction renounced to the shareholders for all flow through shares issued by the Company. In instances where the Company has sufficient available tax loss carry forwards or other deductible temporary differences available to offset the renounced tax deduction and is more-likely-than-not able to utilize these tax losses before expiring, the realization of the deductible temporary differences will be credited to operations in the period of renunciation.

Note 2 Summary of Significant Accounting Policies – (cont'd)

h) Stock-based Compensation

The fair value of all share purchase options granted is charged over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate.

i) Income Taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting basis of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes only if it is more likely than not that they can be realized.

Future income tax assets and liabilities are adjusted for the effect of changes in tax laws and rates at date of enactment or substantial enactment. A valuation allowance is recorded to the extent that future assets are more likely-than-not to be realized.

j) Mining Tax Credits

Mining tax credits are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mining tax credits are earned in respect to exploration costs incurred in Quebec, Canada and are recorded as a reduction of the related deferred exploration expenditures.

k) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the years reported. Significant areas requiring the use of management estimates include the determination of the recoverability of mineral property deferred costs, asset retirement obligations, future income tax assets and liabilities and assumptions used in valuing options and warrants in stock-based compensation calculations. Actual results could differ from these estimates.

Note 2 Summary of Significant Accounting Policies – (cont'd)

l) Financial Instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets, or other financial liabilities. All financial instruments and derivatives are measured on the trade date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recorded in net income. Available-for-sale financial assets are measured at fair value, with changes in fair value recorded in other comprehensive income until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in the statement of operations. Transaction costs on the acquisition of financial assets and liabilities that are classified as other than held-for-trading are expensed in the period in which they occur.

The Company has made the following designations of its financial instruments: cash and cash equivalents and marketable securities as held-for-trading; accounts payable and accrued liabilities and due to related parties as other financial liabilities.

In 2009, the CICA amended Section 3862, "Amendment to Financial Instruments – Disclosures" to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

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

The Company categorizes its financial instruments which are measured at fair value as level 1 (Notes 11 and 12).

Note 2 Summary of Significant Accounting Policies – (cont'd)

m) General Standards of Financial Statement Presentation

The amended Section 1400 provides guidance related to management's assessment of the Company's ability to continue as a going concern. The additional requirement requires management to make an assessment of the Company's ability to continue as a going concern and to disclose any material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern. The adoption of these amendments did not have any effect on the Company's financial statement presentation.

Note 3 Recently Adopted and Future Accounting Pronouncements

a) Recently Adopted Accounting Pronouncements

i) Goodwill and Intangible Assets

On March 1, 2009, the Company adopted new accounting standard, Section 3064 "Goodwill and Intangible Assets" which has replaced the existing Section 3062 "Goodwill and Other Intangible Assets" and Section 3450 "Research and Development Costs". The new pronouncement establishes standards for the recognition, measurement, presentation, and disclosure of goodwill subsequent to its initial recognition and of intangible assets by profit-oriented enterprises. Standards concerning goodwill are unchanged from the standards included in the previous Section 3062. The adoption of this standard did not have a material impact on the Company's financial statements.

ii) Credit Risk and the Fair Value of Financial Assets and Financial Liabilities

In January 2009, the CICA issued EIC 173, "Credit Risk and the Fair Value of Financial Assets and Financial Liabilities". The EIC provides guidance on how to take into account credit risk of an entity and counterparty when determining the fair value of financial assets and financial liabilities. EIC 173 is applicable for the Company's February 28, 2010 financial statements with no material impact upon adoption.

iii) Mining Exploration Costs (EIC-174).

On March 27, 2009, the Emerging Issues Committee (EIC) of the CICA issued EIC-174 Mining Exploration Costs, which provides guidance on the capitalization of exploration costs relating to mining properties and an assessment for impairment of such capitalized costs. It further provides additional discussion on recognition of long-lived assets. The Company adopted this abstract for the year ended February 28, 2010 with no material impact upon adoption on the Company's financial statements.

Note 3 Recently Adopted and Future Accounting Pronouncements – (cont'd)

b) Future Accounting Pronouncements

i) Business Combination, Non-controlling Interest, and Consolidation

The CICA issued Handbook Sections 1582, Business Combinations, ("Section 1582"), 1601, Consolidated Financial Statements, ("Section 1601") and 1602, Non-controlling Interests, ("Section 1602") which replaces CICA Handbook Sections 1581, Business Combinations, and 1600, Consolidated Financial Statements. Section 1582 establishes standards for the accounting for business combinations that is equivalent to the business combination accounting standard under International Financial Reporting Standards ("IFRS"). Section 1582 is applicable for the Company's business combinations with acquisition dates on or after January 1, 2011. Early adoption of this Section is permitted. Section 1601 together with Section 1602 establishes standards for the preparation of consolidated financial statements. These standards are not expected to have an impact on the Company's financial statements.

ii) International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with 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 GAAP. 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 been determined.

Note 4 Mineral Properties

a) Simkar Property, Quebec, Canada

The Company has a 100% interest in two contiguous mining concessions totaling 557 acres located in Louvicourt Township, Quebec.

Note 4 Mineral Properties – (cont'd)

a) Simkar Property, Quebec, Canada – (cont'd)

On August 14, 2009, the Company entered into a joint venture agreement with Eloro Resources Ltd. ("Eloro") whereby Eloro has been granted the option to earn a 50% undivided interest in the Property by making cash payments totaling $350,000 (received $50,000); the issuance of 4,500,000 common shares (received 750,000 shares); and incurring $4,000,000 in exploration expenditures over three years of which $750,000 is to be incurred in the first year, $1,250,000 in the second year and $2,000,000 in the third year. Eloro will be the project manager and operator of the joint venture.

b) Ralleau Project , Quebec, Canada

The Company has a 100% interest in 12 mineral claims situated in the Quevillon area of Quebec. The claims are subject to a 2% net smelter royalty return of which 1% can be purchased by the Company at any time for $1,000,000. The Company has since staked 220 additional mineral claims for a total of 232 claims.

c) Sedex Zinc Property, British Columbia, Canada

The Company has a 100% interest in 46 mineral claims located in the Omineca Mining Division, BC. The claims are subject to a 2% net smelter returns royalty of which the Company can purchase 1% for $1,000,000.

Pursuant to an agreement dated March 28, 2007, the Company granted an option to Canada Zinc Metals Corp. (formerly Mantle Resources Inc.)("Canada Zinc") whereby Canada Zinc could earn up to a 60% interest in the claims by making cash payments totaling $150,000 (received $50,000); the issuance of 125,000 shares (received 100,000 shares); and incurring $2,250,000 in exploration expenditures over three years of which $1,250,000 was to be incurred before December 31, 2008. In April 2008, the option agreement was terminated as Canada Zinc advised it would be unable to meet the exploration expenditure requirement.

Out of the 46 mineral claims, 28 claims had been amalgamated into 5 claims, with the result that the Company has 23 claims. In August 2008, Canada Zinc transferred 100% ownership of 10 additional claims to the Company as part of its termination agreement for no payment or consideration. The Company now has 33 claims covering 21,849 ha.

Note 4 Mineral Properties – (cont'd)

c) Sedex Zinc Property, British Columbia, Canada – (cont'd)

Pursuant to an agreement dated November 5, 2008, the Company granted an option to Rio Grande Mining Corp. ("Rio Grande") whereby Rio Grande could earn up to a 60% interest in the claims by making cash payments totaling $70,000 (received $10,000) and the issuance of a total of 200,000 shares, commencing the earlier of seven days after listing or July 31, 2009, over the next 36 months. An amending letter of agreement dated August 14, 2009 was signed extending the second cash payment of $17,500 and the first 50,000 share payment from the July 31, 2009 date to the earlier of seven days after listing or May 31, 2010 (received subsequent). In addition, Rio Grande must incur $2,000,000 in exploration expenditures over 36 months of which $100,000 was incurred before January 31, 2009.

Note 5 Equipment

	February 28, 2010		
	Cost	Accumulated Amortization	Net
Office equipment	$ 2,966	$ 1,454	$ 1,512

	February 28, 2009		
	Cost	Accumulated Amortization	Net
Office equipment	$ 2,966	$ 1,009	$ 1,957

Note 6 Share Capital and Contributed Surplus

a) Authorized:

Unlimited number of common shares without par value.

b) Issued:

	Share Capital		
	Number of Shares	Amount	Contributed Surplus
Balance, February 29, 2008	29,937,233	$ 8,169,438	$ 352,264
Stock-based compensation	-	-	64,340
Balance, February 28, 2009	29,937,233	8,169,438	416,604

…/cont'd

Note 6 Share Capital and Contributed Surplus – (cont'd)

b) Issued: – (cont'd)

	Share Capital		
	Number of Shares	Amount	Contributed Surplus
Balance, February 28, 2009	29,937,233	8,169,438	416,604
Pursuant to stock options exercised			
- at $0.10	200,000	20,000	-
- at $0.11	200,000	22,000	-
Transfer from contributed surplus on exercise of share purchase options	-	20,759	(20,759)
Pursuant to warrants exercised			
- at $0.06	400,000	24,000	-
Pursuant to a private placement at $0.05	6,000,000	300,000	-
Share issuance costs	-	(6,800)	-
Stock-based compensation	-	-	38,310
Balance, February 28, 2010	36,737,233	$ 8,549,397	$ 434,155

c) Commitments:

Stock-based Compensation Plan

The Company has granted share purchase options to directors, employees and non-employees. These options are granted with an exercise price equal to the market price of the Company's shares on the date of the grant. The share purchase options have vesting terms ranging from immediate upon granting to over eighteen months.

Under the Company's 2009 Rolling Stock Option Plan, the exercise price of each option is determined by the board, subject to the pricing policies of the TSX Venture Exchange. Options vest at the discretion of the board, as determined at the time of each grant, provided that options granted to consultants performing investor relations activities shall vest in stages over twelve months with no more than one-quarter of the options vesting in any three month period. The aggregate number of shares issuable pursuant to options granted under the plan is limited to 10% of the Company's issued shares at the time the options are granted. The aggregate number of options granted to any one optionee in a twelve month period is limited to 5% of the issued shares of the Company. A summary of the status of the share purchase options outstanding as at February 28, 2010 and February 28, 2009 and changes during the periods then ended is presented below:

Note 6 Share Capital and Contributed Surplus – (cont'd)

c) Commitments: – (cont'd)

Stock-based Compensation Plan – (cont'd)

	February 28, 2010		February 28, 2009	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Outstanding at beginning of year	2,350,000	$0.12	2,637,500	$0.16
Forfeited/expired	(200,000)	$0.13	(1,837,500)	$0.16
Granted	725,000	$0.10	1,550,000	$0.10
Exercised	(400,000)	$0.11	-	-
Outstanding at end of year	2,475,000	$0.13	2,350,000	$0.12
Exercisable at end of year	2,475,000		2,350,000	

The weighted average remaining contractual life of the share purchase options is 1.63 years.

The weighted average fair value of share purchase options granted during the year ended February 28, 2010 of $0.05 (2009: $0.02) per option was determined using the Black-Scholes options pricing model with the following assumptions:

	February 28, 2010	February 28, 2009
Expected dividend yield	0.00%	0.00%
Expected volatility	124.68% - 145.04%	69.51% - 120.1%
Risk-free interest rate	1.28% - 2.42%	1.67% - 3.23%
Expected term in years	2 – 3 yrs	2 - 5 yrs

Note 6 Share Capital and Contributed Surplus – (cont'd)

c) Commitments – (cont'd)

Stock-based Compensation Plan – (cont'd)

As at February 28, 2010, the following share purchase options are outstanding:

Number of Shares	Exercise Price	Expiry Date
100,000	$0.10	June 1, 2010
285,000	$0.15	January 25, 2011
950,000	$0.10	February 26, 2011
215,000	$0.20	March 21, 2011
75,000	$0.10	October 7, 2011
650,000	$0.10	October 23, 2012
200,000	$0.10	November 17, 2013
2,475,000		

Subsequent to February 28, 2010, 100,000 options exercisable at $0.10 per share expired unexercised.

Share Purchase Warrants

A summary of the status of the share purchase warrants outstanding as at February 28, 2010 and 2009 and changes during the year then ended is presented below:

	2010		2009	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Outstanding at beginning of year	-	-	9,297,000	$0.37
Granted	6,000,000	$0.06	-	-
Expired	-	-	(9,297,000)	$0.37
Exercised	(400,000)	$0.06	-	-
Outstanding at end of year	5,600 ,000	$0.06	-	-

Note 6 Share Capital and Contributed Surplus – (cont'd)

c) Commitments – (cont'd)

Share Purchase Warrants – (cont'd)

At February 28, 2010 there are 5,600,000 share purchase warrants outstanding. Unless otherwise noted, each warrant entitles the holders thereof the right to purchase one common share on or before August 26, 2010 at an exercise price of $0.06 per share and thereafter at an exercise price of $0.10 per share until they expire on August 26, 2011.

Note 7 Related Party Transactions

The Company incurred the following expenditures with directors of the Company, senior officers and companies with common directors and a former director:

	2010	2009
Consulting fees	$ 42,000	$ 41,910
Administrative fees	4,275	10,410
Management fees	124,000	148,707
Rent and office	15,375	14,100
	$ 185,650	$ 215,127

All transactions with related parties were measured by the exchange amount which is the amount agreed upon by the transacting parties.

As at February 28, 2010, $46,500 (2009: $42,400) is due to directors of the Company for unpaid management fees and expenses incurred on behalf of the Company. As at February 28, 2010, accounts payable includes $3,500 (2009: $nil) due to a senior officer of the Company for unpaid consulting fees. These amounts are unsecured, non-interest bearing and due on demand.

Note 8 Income Taxes

A reconciliation of the income tax provision computed at statutory rates to the reported income tax provision is as follows:

	2010	2009
Statutory tax rates	29.75%	30.75%
Loss before income taxes	$ (628,911)	$ (565,575)
Expected income tax recovery	187,000	174,000
Increase (decrease) in income tax recovery resulting from:		
Non-deductible stock-based compensation	(11,000)	(20,000)
Other non-deductible items	(91,000)	(10,000)
Expiry of loss carry forward	(28,000)	(42,000)
Effect of reduction in statutory rates	(18,000)	(24,000)
Change in the valuation allowance for future income tax assets	(39,000)	(78,000)
Future income tax recovery	$ -	$ -

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

	2010	2009
Future income tax assets and liabilities:		
Non-capital losses carry forward	$ 503,000	$ 448,000
Share issue costs	10,000	18,000
Mineral properties	(74,000)	(78,000)
Other	2,000	14,000
	441,000	402,000
Less: valuation allowance for future income tax assets	(441,000)	(402,000)
Net future income tax assets	$ -	$ -

At February 28, 2010, the Company has accumulated non-capital losses totalling $2,020,000 which are available to reduce taxable income of future years. The non-capital losses expire by 2030.

The Company is in arrears on filing certain of its statutory tax forms. The Company has exposure to late filing penalties and related interest. The Company has included a provision of $100,313 during the year ended February 28, 2010 (2009: $Nil) to accrue for such liabilities.

Note 8 Income Taxes – (cont'd)

The Company may be required to indemnify flow-through investors for the amount of increased tax payable by the flow-through investor as a consequence of the failure of the Company to incur qualifying exploration expenditures previously renounced to the flow-through investors. Previously renounced and unspent exploration amounts of $335,466 relating to the 2006 flow-through shares offering may be subject to such indemnification. The Company estimates that the potential liability is $190,297 and at February 28, 2010 has accrued a provision for this, recorded in interest and penalties. The outcome of the amount of actual claims, if any, is contingent on future assessments to the investors by Canada Revenue Agency and other events which cannot be determined at this time.

Note 9 Commitments & Contingencies

a) On May 14, 2009, a former consultant of the Company commenced an action at The Provincial Court of British Columbia, small claims court, against the Company. In the action, the plaintiff claimed damages in the amount of $25,000 for breach of contract and wrongful termination. At this time, the outcome of the action is not determinable. Any costs to the Company will be recognized in the period in which they occur.

b) As at February 28, 2010, the Company has commitments to pay €45,833 ($65,752) for financial advisory services in connection with the Company's ongoing fundraising, financing activities and general marketing services in Germany.

c) As at February 28, 2010, the Company has consulting and management agreements that can be terminated by the Company giving 30 days notice. The aggregate amount of these agreements is $27,000 monthly.

Note 10 Non-cash Transactions

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the cash flow statement. The following transactions were excluded from the statement of cash flow.

Year ended February 28, 2010:

a) the Company received marketable securities valued at $56,250 pursuant to an option agreement on its mineral properties. The value was determined by the quoted price of the securities when received.

b) the Company issued shares for the exercise of stock options which had been recorded in contributed surplus at $20,759 in prior years. As a result, this amount was transferred from contributed surplus to share capital.

Note 11 Financial Instruments

The Company's financial instruments consist of cash and cash equivalents, receivables, marketable securities and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company reduces its credit risk on cash by placing these instruments with institutions of high credit worthiness. The Company provides credit to its clients in the normal course of operations. It carries out, on a continuing basis, credit checks on its clients and maintains provisions for contingent losses.

b) Liquidity Risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they become due. There can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favourable. The Company may seek additional financing through equity offerings and advances from related parties, but there can be no assurance that such financing will be available on terms acceptable to the Company.

c) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company is exposed to risks associated with the effects of fluctuations in the prevailing levels of market interest rates.

d) Foreign Currency Risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. The majority of the Company’s operations are carried out in Canada. The Company is not exposed to risk associated with foreign exchange.

e) Market Price Risk

The Company’s investment in the common shares of a publicly traded Canadian mining company bears market price risk. The maximum exposure to this risk is equal to the carrying value of the investment.

Note 11 Financial Instruments – (cont'd)

e) Market Price Risk – (cont'd)

The Company is exposed to market price risk through the following assets:

	2010	2009
Held for trading investments	$ 164,000	$ 18,000

Note 12 Capital Disclosure

The Company manages and adjusts its capital structure based on available funds in order to support its operations and the acquisition and exploration of mineral properties. The Company's primary objectives in managing capital are to:

- Safeguard the entity's ability to continue as a going concern
- Maintain an optimal capital base in order to support the capital requirements of its operations, including growth opportunities and maintaining investor confidence.

The capital of the Company consists of shareholders' equity. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to any externally imposed capital requirements. The Company relies on capital markets to support continued growth.

Note 13 Subsequent Events

Subsequent to February 28, 2010, the Company:

a) Granted share purchase options to directors, officers and consultants to acquire up to 800,000 common shares at $0.13 per share exercisable to March 4, 2013;

b) Granted share purchase options to a consultant to acquire up to 200,000 common shares at $0.13 per share exercisable to March 4, 2012;

c) Issued 2,360,000 common shares for $141,600 pursuant to the exercise of share purchase warrants outstanding at February 28, 2010;

d) Received a cash payment of $17,500 and 50,000 common shares of another public company pursuant to an agreement on its Sedex property (Note 4).

Note 14 Comparative Figures

Some of the comparative figures have been reclassified to conform to the current year's presentation. The classifications had no effect on the net loss and deficit as previously reported.