RUGBY MINING LIMITED

FINANCIAL STATEMENTS

February 28, 2010 and 2009

SmytheRatcliffe
CHARTERED ACCOUNTANTS

AUDITORS' REPORT

TO THE SHAREHOLDERS OF RUGBY MINING LIMITED

We have audited the balance sheets of Rugby Mining Limited 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.

"Smythe Ratcliffe LLP" (signed)

Chartered Accountants

Vancouver, British Columbia
June 25, 2010

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RUGBY MINING LIMITED
BALANCE SHEETS

		February 28, 2010		February 28, 2009
ASSETS				
Current				
Cash and cash equivalents	**$**	**955,959**	$	827,939
Interest receivable		**-**		15,198
Other receivables		**10,544**		9,376
	$	**966,503**	$	852,513

LIABILITIES AND SHAREHOLDERS' EQUITY				
Current				
Accounts payable and accrued liabilities	**$**	**41,207**	$	77,163
Due to related parties (Note 9)		**102,437**		56,251
		143,644		133,414
Shareholders' equity				
Obligation to issue shares (Notes 7 & 12)		**615,000**		-
Share capital (Note 6)		**1,817,110**		984,265
Contributed surplus (Note 8)		**196,735**		66,216
Deficit		**(1,805,986)**		(331,382)
		822,859		719,099
	$	**966,503**	$	852,513

Basis of presentation (Note 2)

Subsequent event (Note 12)

Approved on behalf of the Board:

"Yale Simpson"
.... Director

"Cecil Bond"
.... Director

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

RUGBY MINING LIMITED
STATEMENTS OF OPERATIONS AND DEFICIT

		Year ended February 28, 2010		Year ended February 28, 2009
EXPENSES				
Administrative	$	**73,026**	$	687
Bank charges		**1,640**		388
Professional fees		**55,043**		167,757
Project evaluation (Note 5)		**1,092,397**		50,266
Shareholder communications		**131**		1,457
Stock-based compensation (Note 6)		**196,735**		-
Stock exchange and filing fees		**28,864**		44,811
Transfer agent filing fees		**16,549**		9,340
Travel		**10,340**		-
Interest income		**(121)**		(19,905)
Net loss and comprehensive loss for the year		**1,474,604**		254,801
Deficit, beginning of year		**331,382**		76,581
Deficit, end of year	$	**1,805,986**	$	331,382
Basic and diluted loss per share	$	**0.08**	$	0.05*
Weighted average number of common shares outstanding		**18,349,932**		5,600,000*

* prior to the qualifying transaction completion, the calculation of basic and diluted loss per share, and weighted average number of common shares outstanding excluded escrow shares.

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

RUGBY MINING LIMITED
STATEMENTS OF CASH FLOWS

		Year ended February 28, 2010		Year ended February 28, 2009
Operating Activities				
Net loss for year	**$**	**(1,474,604)**	$	(254,801)
Items not requiring an outlay of cash:				
Obligation to issue shares for option payment (Note 7)		**615,000**		-
Stock-based compensation		**196,735**		-
		(662,869)		(254,801)
Changes in non-cash working capital				
Interest receivable		**15,198**		(15,198)
Other receivables		**(1,168)**		(5,105)
Accounts payable and accrued liabilities		**(35,956)**		46,638
Due to related parties		**46,186**		56,251
Cash used in operating activities		**(638,609)**		(172,215)
Financing Activities				
Issue of share capital for cash		**776,000**		-
Share issue costs		**(9,371)**		-
Cash provided by financing activities		**766,629**		-
Increase (decrease) in cash and cash equivalents		**128,020**		(172,215)
Cash and cash equivalents, beginning of year		**827,939**		1,000,154
Cash and cash equivalents, end of year	**$**	**955,959**	$	827,939
Cash and cash equivalents consist of:				
Cash	**$**	**955,959**	$	57,939
Cashable GIC's		**-**		770,000
	$	**955,959**	$	827,939
Cash paid during the year for interest	**$**	**-**	$	-
Cash paid during the year for taxes	**$**	**-**	$	-

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

1. NATURE OF BUSINESS

Rugby Mining Limited (the "Company") was incorporated under the *Business Corporations Act* (British Columbia) on January 24, 2007. The Company's common shares were listed and called for trading on the TSX Venture Exchange (the "TSX-V") on August 7, 2007. Following the completion of its qualifying transaction on March 5, 2009, the Company is classified as a "Mineral Exploration and Development" company and continues to acquire and evaluate mineral properties.

2. BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The financial statements do not include any adjustments to the classification and amounts of assets and liabilities that may be required should the Company be unable to continue in business.

The Company has incurred operating losses since inception. As at February 28, 2010, the Company had working capital of $822,859 (2009 - $719,099). At February 28, 2010, the Company had a deficit of $1,805,986 (2009 - $331,382). The Company's ability to continue in operation is dependent on its ability to secure additional financing to fund planned exploration and its ongoing administrative expenditures, and while it has been successful in doing so in the past, there can be no assurance that it will be able to do so in the future.

The Company has relied principally upon the issuance of securities for financing. Future capital requirements will depend on many factors including the Company's ability to execute its business plan. The Company intends to continue relying upon the issuance of securities to finance its future activities but there can be no assurance that such financing will be available on a timely basis under terms acceptable to the Company, particularly in view of current market conditions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company's functional and reporting currency is the Canadian dollar.

(a) Cash and cash equivalents

The Company classifies highly liquid short-term investments that are readily convertible into known amounts of cash with maturities of 90 days or less from the date of acquisition as cash equivalents.

(b) Income taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, future income taxes are recognized for the future income tax consequences attributable to differences between financial statement carrying values and their corresponding tax values (temporary differences) and tax loss carry-forwards. Future income tax assets and liabilities are measured using enacted or substantively enacted income tax rates expected to apply when the temporary differences are expected to be recovered or settled. The effect on future income tax assets and liabilities of a change in tax rates is included in income in the period in which the change occurs. The amount of future income tax assets recognized, if any, is limited to the amount that, in the opinion of management, is more likely than not to be realized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Stock-based compensation

The Company accounts for stock-based compensation using a fair value based method with respect to all stock-based payments to directors, employees and non-employees. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is complete or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable. The fair value of the options is accrued and charged to operations, with the offset credit to contributed surplus. For directors and employees the fair value is recognized over the vesting period, and for non-employees the fair value is recognized over the related service period. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to capital stock.

(d) Earnings (loss) per share

Basic earnings per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to repurchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

Shares held in escrow, other than where their release is subject to the passage of time, are not included in the calculation of the weighted average number of common shares outstanding. During the year ended February 28, 2010, the Company completed its qualifying transaction. Consequently all shares currently subject to escrow will be included for subsequent earnings (loss) per share calculations as the release of such shares is based on the passage of time.

(e) Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period.

Significant areas requiring the use of estimates include accrued liabilities, the determination of the assumptions used in the calculation of stock-based compensation expense, the valuation allowance for future income tax assets and the valuation of warrants issued. Actual results could differ from those estimates used in the financial statements.

(f) Mineral property interests

Exploration expenditures and option payments incurred prior to the determination of the feasibility of mining operations and the decision to commence development are charged to operations as incurred.

Pre-development costs incurred prior to a development decision and the receipt of all necessary permits and licenses for sustained mining operations are charged to operations as incurred.

Development expenditures incurred subsequent to the commencement of commercial production to increase productive capacity or to extend the life of existing production will be capitalized under mine development costs.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Foreign currency transaction

Where applicable, foreign currency transactions and balances are translated into Canadian dollars as follows:

i) Monetary assets and liabilities, at the rate of exchange in effect as at the balance sheet date;
ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of assets or assumption of liabilities; and
iii) Expenses, at the rate of exchange at the time of the transaction.

Gains and losses arising from the translation of foreign currency are included in the determination of net loss for the period.

(h) Financial instruments

Financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured in the balance sheet at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities, which are measured at amortized cost. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net income; available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the investment is no longer recognized or impaired, at which time the amounts would be recorded in net income.

Transaction costs that are directly attributable to the acquisition or issue of financial instruments that are classified as other than held-for-trading, which are expensed as incurred, are included in the initial carrying value.

Comprehensive income or loss is defined as the change in equity from transactions and other events from sources other than the Company's shareholders. Other comprehensive income or loss refers to items recognized in comprehensive income or loss that are excluded from net income or loss calculated in accordance with Canadian GAAP.

The Company has no items of other comprehensive income in any period presented. Therefore, net loss as presented in the Company's statements of operations equals comprehensive loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) New accounting policies adopted

Unit Offerings

Proceeds from the issue of units is allocated between common shares and share purchase warrants on a residual value basis, wherein the fair value of the common shares is based on the market value on the date of the announcement of the placement and the balance, if any, is allocated to the attached warrants. Share issue costs are netted against share proceeds.

(j) Future changes in accounting policies

(a) International Financial Reporting Standards ("IFRS")

In 2008, the Canadian Accounting Standards Board ("AcSB") confirmed that the transition to IFRS from Canadian GAAP will be effective for fiscal years beginning on or after January 1, 2011 for publicly accountable enterprises. The Company will therefore be required to present IFRS financial statements for its May 31, 2011 interim financial statements and for the year ended February 28, 2012. The effective date will require the restatement for comparative purposes of amounts reported by the Company for the interim periods and for the year ending February 28, 2011 and earlier where applicable.

(b) Business Combinations

In January 2009, the CICA issued Handbook Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements", and Section 1602, "Non-Controlling Interests". These sections replace the former Handbook Section 1581, "Business Combinations", and Section 1600, "Consolidated Financial Statements", and establish a new section for accounting for a non-controlling interest in a subsidiary.

Sections 1582 and 1602 will require net assets, non-controlling interests and goodwill acquired in a business combination to be recorded at fair value and non-controlling interests will be reported as a component of equity. In addition, the definition of a business is expanded and is described as an integrated set of activities and assets that are capable of being managed to provide a return to investors or economic benefits to owners. Acquisition costs are not part of the consideration and are to be expensed when incurred. Section 1601 establishes standards for the preparation of financial statements.

These new sections apply to interim and annual financial statements relating to the Company's fiscal years beginning on or after March 1, 2011. Earlier adoption of these sections is permitted as of the beginning of a fiscal year. All three sections must be adopted concurrently.

4. CAPITAL MANAGEMENT

The Company considers its capital to include all components of shareholders equity. The Company manages its capital structure and makes adjustments to it, based on funds available, in order to support its activities. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of management to sustain future development of the business.

Based upon the Company's stage of development, it is dependent on external financing to fund its activities. In order to carry out the planned operations and pay for administrative costs, the Company will spend its existing working capital and be required to raise additional amounts as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended February 28, 2010. The Company is not subject to externally imposed capital requirements.

5. PROJECT EVALUATION

The tables below show the Company's project evaluation expenditures for 2010 and 2009.

	2010		
	Hawkwood Property	**Other**	**Total**
Assays	$ **6,684**	$ **449**	$ **7,133**
Consultants and contractors	**28,048**	**-**	**28,048**
Field camp	**21,046**	**-**	**21,046**
Geological	**230,073***	**191,097**	**421,170**
Option payment (Notes 7 and 12)	**615,000**	**-**	**615,000**
	$ **900,851**	$ **191,546**	$ **1,092,397**

* Includes A$200,000 ($183,202) paid to Rowen Company Limited for the re-imbursement of expenditures.

	2009		
	Hawkwood Property	**Other**	**Total**
Geological	**46,596**	**3,670**	**50,266**
	$ **46,596**	$ **3,670**	$ **50,266**

Hawkwood Property Australia

Pursuant to agreements dated July 10, 2008 and December 2, 2008 between Sunland Properties Limited ("Sunland") and Rowen Company Limited ("Rowen") a company controlled by Bryce Roxburgh, a director of the Company, and subsequent amendments dated December 31, 2009 the Company has the option (the "Option") to acquire up to 90% of the issued and outstanding shares of Sunland. Sunland's wholly owned subsidiary, Rugby Mining Pty. Ltd., owns the Hawkwood property in Queensland Australia. Previously it had the right to earn up to a 60% interest in Sunland. Under the Option, the Company paid A$25,000 ($22,388) to Rowen as a non-refundable deposit and was required to make payments of A$200,000 ($183,202) (paid during the year ended February 28, 2010) to Rowen to repay a portion of a loan advanced to Sunland by Rowen, issue 1.5 million shares of the Company to Rowen on approval from the TSX-V (approved on January 25, 2010) and incur exploration expenditures as follows:

5. PROJECT EVALUATION (continued)

(i) In order to exercise the option to acquire an initial 60% interest in Sunland:
A$300,000 ($281,370) by December 31, 2010
A$200,000 ($187,580) by December 31, 2011
A$500,000 ($468,950) by December 31, 2013

(ii) In order to exercise the option to acquire an additional 30% interest in Sunland, the Company must incur an additional A$3.0 million in expenditures on the property for a total of A$4.0 million before December 31, 2017 and issue an additional 3 million shares of the Company to Rowen.

Part of the Hawkwood property is subject to a 2% net smelter royalty payable to Newcrest Operations Limited.

Eastern Iron Joint Venture Agreement

The Company entered into an agreement (the “Eastern Agreement”) dated January 13, 2010 between the Company and Eastern Iron Limited (“Eastern Iron”) and Sunland subsidiary, Rugby Mining Pty Ltd. with respect to certain portions of exploration permit 15289 and exploration permit application 17099 (the “Exploration Area”) which comprises a part of the Company’s Hawkwood Project. Under the terms of the Eastern Agreement, Eastern Iron can earn a 50% interest in the Exploration Area by funding an A$200,000 ($187,580) work program within the first 12 months and thereafter incurring an additional A$500,000 ($468,950) in exploration expenditures within the following 2 years (“Phase One”). Eastern Iron can increase its interest in the Exploration Area to 80% by incurring an additional A$3.6 ($3.38) million in expenditures and completing a bankable feasibility study within the following 5 years (Phase Two”). Exploration permit 15289 is subject to a 2% net smelter royalty held by Newcrest Operations Limited. Eastern is required to incur expenditures and complete a bankable feasibility study to earn its interest as follows:

Phase One
(i) A$200,000 (minimum commitment by February 10, 2011);
(ii) A$200,000 by February 10, 2012; and
(iii) additional A$300,000 by February 10, 2013
for a total Phase One expenditures of A$700,000.

Phase Two
(i) additional A$300,000 by February 10, 2014
(ii) additional A$300,000 by February 10, 2015
(iii) additional A$1 million by February 10, 2016
(iv) additional A$1 million by February 10, 2017
(v) additional A$1 million by February 10, 2018,
for a total Phase Two expenditures of A$3.6 million and a cumulative expenditures of A$4.3 million.

6. SHARE CAPITAL

(a) Authorized and issued

The authorized share capital of the Company is unlimited common shares without par value.

The Company has issued common shares as follows:

	February 28, 2010			February 28, 2009		
	Number of Shares		**Amount**	Number of Shares		Amount
Balance, beginning of year	**16,000,000**	$	984,265	16,000,000	$	984,265
Issued during the period for:						
Cash – equity financing	**3,000,000**		600,000	-		-
– options exercised	**950,000**		142,500	-		-
– agent warrants exercised	**200,000**		20,000	-		-
– warrants exercised	**45,000**		13,500	-		-
Contributed surplus allocated	-		66,216	-		-
Share issue costs	-		(9,371)	-		-
Balance, end of year	**20,195,000**	$	1,817,110	16,000,000	$	984,265

In July 2009, the Company completed a non-brokered private placement consisting of 3,000,000 units ("Units") at $0.20 per Unit for gross proceeds of $600,000. Each Unit consists of one common share ("Share") and one transferable share purchase warrant ("Warrant"). Each Warrant is exercisable to acquire an additional Share of the Company until July 17, 2011, at a price of $0.30 per Share. Costs of $9,371 associated with the placement have been charged to share capital.

In addition, during the year ended February 28, 2010, the Company issued 200,000 shares pursuant to the exercise of agent warrants at a price of $0.10 per share, issued 950,000 shares pursuant to the exercise of options at a price of $0.15 per share and issued 45,000 shares pursuant to the exercise of Warrants at a price of $0.30 per share.

(b) Escrow shares

At February 28, 2010, 7,812,500 shares (2009 – 10,400,000) issued prior to the qualifying transaction were held in escrow. The shares will be released from escrow as follows:

1,552,500 on March 5, 2010
1,552,500 on September 5, 2010
1,552,500 on March 5, 2011
1,552,500 on September 5, 2011
1,602,500 on March 5, 2012

6. SHARE CAPITAL (continued)

(c) Stock option plan

The Company has adopted an incentive stock option plan (the "Plan"), the essential elements of which are as follows: the aggregate number of common shares of the Company's share capital issuable pursuant to options granted under the Plan may not exceed 10% of the total number of issued and outstanding shares of the Company on a non-diluted basis. Options granted under the Plan may have a maximum term of five years. The exercise price of options granted under the Plan will not be less than the discounted market price of the common shares (defined as the last closing market price of the Company's common shares immediately preceding the grant date, less the maximum discount permitted by TSX–V), or such other price as may be agreed to by the Company and accepted by the TSX-V. Options granted under the Plan are generally exercisable immediately following the grant however certain options may be subject to vesting at times as determined by the directors of the Company and the TSX-V.

The status of options granted under the Plan as of February 28, 2010 and February 28, 2009 and changes during the years then ended is as follows:

	2010			2009		
	Number of Options	**Weighted Average Exercise Price**	**Expiry date**	Number of Options	Weighted Average Exercise Price	Expiry date
Outstanding, beginning of year	**950,000**	**$0.15**	**July 24, 2012**	950,000	$0.15	July 24, 2012
Granted – October 9, 2009 *	**1,125,000**	**0.30**	**October 9, 2014**	-	-	
Granted – October 10, 2009 *	**410,000**	**0.30**	**October 10, 2014**	-	-	
Exercised	**(950,000)**	**0.15**		-	-	
Outstanding, end of year	**1,535,000**	**$0.30**		950,000	$0.15	
Weighted average remaining contractual life of options		**4.61 years**			3.40 years	

* None of the options are exercisable at February 28, 2010.

(d) Stock-based compensation

The fair value of options granted during the year ended February 28, 2010 was estimated at the grant date using the Black-Scholes option pricing model, with the following weighted average assumptions:

Expected annual volatility	125%
Risk-free interest rate	1.65%
Expected life	2.5 years
Expected dividend yield	0.00%

The total fair value of stock options granted during the year ended February 28, 2010 was $314,776. 50% of the stock options granted during the year will vest 6 months after the grant date and the remainder after 12 months. Stock based compensation expense of $196,735 related to the stock options granted and vested was recognized during the year ended February 28, 2010.

6. SHARE CAPITAL (continued)

(e) Warrants

At February 28, 2010, the Company had outstanding warrants exercisable to acquire 2,955,000 common shares as follows:

Number	Exercise Price	Expiry Date
2,955,000	$ 0.30	July 17, 2011

During the year ended February 28, 2010 45,000 warrants were exercised for proceeds of $13,500.

At February 28, 2009, the Company had outstanding agent warrants exercisable to acquire 200,000 common shares as follows:

Number	Exercise Price	Expiry Date
200,000	$ 0.10	August 7, 2009

During the year ended February 28, 2009 200,000 warrants were exercised for proceeds of $20,000.

7. OBLIGATION TO ISSUE SHARES

Pursuant to the amendment to the option agreement to acquire an interest in Sunland (see Note 5) the Company is required to issue to Rowen 1.5 million shares with a fair value of $615,000 at January 25, 2010 (date of TSX-V approval). The obligation to issue shares has been recorded as shareholders' equity with a corresponding debit to operations. See subsequent event Note 12.

8. CONTRIBUTED SURPLUS

	2010	2009
Balance, beginning of year	**$ 66,216**	$ 66,216
Stock-based compensation	**196,735**	-
Contributed surplus allocated	**(66,216)**	-
Balance, end of year	**$ 196,735**	$ 66,216

9. RELATED PARTY TRANSACTIONS

Amounts due to related parties of $102,437 at February 28, 2010 (2009 - $56,251) is for administrative support fees, management, consulting and exploration fees, and for expenses incurred while conducting the Company's business.

During the year ended February 28, 2010, related party transactions not otherwise disclosed in these financial statements are as follows:

(a) Paid or accrued project evaluation costs of $117,525 (2009 - $28,336) to a company controlled by the Chief Executive Officer of the Company. As at February 28, 2010, the Company has amounts owing of $32,783 (2009 - $28,336) to this company;

(b) Paid or accrued administrative support fees of $60,000 (2009 - $Nil) to a company with common directors. As at February 28, 2010, the Company has amounts owing of $5,250 (2009 - $Nil) to this company; and

(c) As at February 28, 2010, the Company has amounts owing of $64,404 (2009 - $27,915) to a company controlled by a director.

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

10. INCOME TAXES

As at February 28, 2010, the Company has non-capital losses of approximately $664,000 that may be applied to reduce future taxable income. The potential future tax benefit of these losses has not been recorded in these financial statements. The losses expire as follows:

2027	$	4,000
2028		36,000
2029		225,000
2030		399,000
	$	664,000

A reconciliation of income tax provision computed at the Canadian statutory rate of 29.75% (2009 – 30.87%) to the reported income tax provision is approximately as follows:

		February 28, 2010		February 28, 2009
Income tax benefit computed at statutory rate	**$**	(439,000)	$	(79,000)
Stock-based compensation and other		52,000		(6,000)
Reduction in future income taxes resulting from statutory rate reduction		44,000		20,000
Non-deductible portion of investment		268,000		14,000
Change in timing differences for the year		(130,000)		-
Change in valuation allowance		205,000		51,000
	$	Nil	$	Nil

10. INCOME TAXES (continued)

Significant components of the Company's future income tax assets, after applying enacted corporate income tax rate of 25% (2009 – 26%), are as follows:

	2010	2009
Non-capital losses	$ 167,000	$ 70,000
Tax basis over carrying value of mineral properties	118,000	6,000
Share issue costs	12,000	16,000
Total future tax assets	297,000	92,000
Valuation allowance	(297,000)	(92,000)
	$ Nil	$ Nil

The valuation allowance reflects the Company's estimate that it is more likely than not that the tax assets will not be realized.

11. FINANCIAL INSTRUMENTS

The Company classifies its cash and cash equivalents and interest receivable as held-for-trading; and accounts payable and accrued liabilities as other financial liabilities.

The carrying values of cash and cash equivalents, interest receivable, and accounts payable and accrued liabilities approximate their fair values due to the short-term maturity of these financial instruments. The fair value of amounts due to related parties has not been disclosed as the fair value cannot be reliably measured since there is no active market for such instrument.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company manages credit risk, in respect of cash and cash equivalents by purchasing highly liquid, short-term investment-grade securities held at a major Canadian financial institution in accordance with the Company's investment policy. The credit risk associated with cash and cash equivalents is minimized substantially by ensuring that these financial assets are placed with major Canadian financial institutions with strong investment-grade ratings by a primary ratings agency. The Company's concentration of credit risk and maximum exposure thereto is as follows relating to financial assets:

	2010	**2009**
Cash	$ 955,959	$ 57,939
Cashable GICs	-	770,000
	$ 955,959	$ 827,939

Concentration of credit risk exists as the Company's cash and cash equivalents at February 28, 2010 of $955,959 are held at a single major Canadian financial institution.

11. FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. The Company has cash and cash equivalents at February 28, 2010 in the amount of $955,959 in order to meet short-term business requirements. At February 28, 2010, the Company had current liabilities of $143,644. All of the Company's current liabilities are due on demand or within 30 days.

(c) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

i) Interest rate risk

The Company's cash and cash equivalents consist of cash held in bank accounts and cashable GICs that earn interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in market rates do not have a significant impact on estimated fair values as of February 28, 2010. Future cash flows from interest income on cash and cash equivalents affected by interest rate fluctuations are minimal. The Company manages interest rate risk by maintaining an investment policy that focuses primarily on preservation of capital and liquidity.

ii) Foreign currency risk

The Company is exposed to foreign currency risk as certain monetary financial instruments are denominated in US and Australian currencies. The Company has not entered into any foreign currency contracts to mitigate this risk, as it believes this risk is minimized by the minimal amount of cash held in US currency. The Company's sensitivity analysis suggests that a consistent 5% change in the absolute rate of exchange in all foreign jurisdictions would not have a material impact on these financial statements.

iii) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company has no financial instruments exposed to such risk.

12. SUBSEQUENT EVENT

Subsequent to February 28, 2010, the Company issued 1.5 million shares in conjunction with the Option (Notes 5 and 7).