Jiulian Resources Inc.

Financial Statements
Expressed in Canadian Dollars

For The Year Ended February 28, 2011

Contents

CHARTERED ACCOUNTANTS
MacKay LLP

1100 – 1177 West Hastings Street
Vancouver, BC V6E 4T5
Tel: 604-687-4511
Fax: 604-687-5805
Toll Free: 1-800-351-0426
www.MacKay.ca

Independent Auditor's Report

To the Shareholders of
Jiulian Resources Inc.

We have audited the accompanying financial statements of Jiulian Resources Inc., which comprise the balance sheets as at February 28, 2011 and February 28, 2010, and the statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
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 comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Jiulian Resources Inc. as at February 28, 2011 and February 28, 2010, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of Jiulian Resources Inc. to continue as a going concern.

"MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
June 28, 2011

Jiulian Resources Inc.
Balance Sheets
Expressed in Canadian Dollars

		February 28, 2011		February 28, 2010
ASSETS				
Current				
Cash	$	-	$	55,334
Term deposits (Note 3)		1,293,347		1,532,285
Prepaid expenses		5,422		2,905
GST/HST recoverable		18,454		8,272
		1,317,223		1,598,796
Equipment (Note 4)		16,111		21,912
Mineral Properties (Note 5)		-		79,368
TOTAL ASSETS	$	1,333,334	$	1,700,076
LIABILITIES				
Current				
Cheques written in excess of bank balance	$	1,640	$	-
Accounts payable and accrued liabilities		41,437		11,875
		43,077		11,875
SHAREHOLDERS' EQUITY				
Share capital (Note 8)		1,995,950		1,984,950
Contributed surplus (Note 8)		72,559		35,500
Deficit		(778,252)		(332,249)
		1,290,257		1,688,201
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	1,333,334	$	1,700,076

Continuance of operations (Note 1)
Commitment and subsequent event (Note 5)

Approved on behalf of the Board:

"X. Charlie Cheng" — Director

"James Zhang" — Director

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

Jiulian Resources Inc.
Statements of Operations, Comprehensive Loss and Deficit
Expressed in Canadian Dollars

Year Ended		**February 28, 2011**		**February 28, 2010**
Administration Expenses				
Accounting and audit	$	12,730	$	14,270
Amortization		6,784		4,213
Bank charges		168		393
Consulting fees (Note 6)		89,364		27,915
Filing and transfer agent fees		16,259		15,351
Legal		10,830		20,532
Office and administration		28,142		24,137
Salaries and benefits		52,894		38,481
Stock based compensation (Note 8)		37,059		-
Travel and related expenses		9,004		329
Loss before other items		263,234		145,621
Other Items				
Interest income		17,102		32,970
Consulting income		24,300		-
Foreign currency gain (loss)		(1,161)		(7,885)
Write-off of mineral property (Note 5)		(223,010)		-
		(182,769)		25,085
Net and comprehensive loss for the year		(446,003)		(120,536)
Deficit, beginning of year		(332,249)		(211,713)
Deficit, end of the year	$	(778,252)	$	(332,249)
Basic and diluted loss per share	$	(0.05)	$	(0.01)
Weighted average number of shares outstanding		9,671,507		9,437,957

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

Jiulian Resources Inc.
Statements of Cash Flows
Expressed in Canadian Dollars

Year Ended		February 28, 2011		February 28, 2010
Cash Flows From Operating Activities				
Net loss for the year	$	(446,003)	$	(120,536)
Items not affecting cash:				
Amortization		6,784		4,213
Stock based compensation		37,059		-
Loss on foreign exchange		1,161		7,885
Write-off of mineral property		223,010		-
Accrued interest on term deposit		(9,388)		7,705
Changes in non-cash working capital items:				
Prepaid expenses		(2,517)		(1,255)
GST/HST recoverable		(10,182)		(7,415)
Accounts payable and accrued liabilities		29,562		3,408
Due to related party		-		(10,078)
Net cash flow from operating activities		(170,514)		(116,073)
Cash Flows From Investing Activities				
Redemption of term deposits		248,326		171,535
Purchase of equipment		(983)		(25,143)
Acquisition and exploration of mineral properties		(132,642)		(69,368)
Net cash from investing activities		114,701		77,024
Cash Flows From Financing Activities				
Proceeds from issuance of shares		-		20,000
Net cash from financing activities		-		20,000
Effect of foreign exchange on cash		(1,161)		(7,885)
Decrease in cash during the year		(56,974)		(26,934)
Cash, beginning of year		55,334		82,268
Cash (cheques written in excess of bank balance), end of year	$	(1,640)	$	55,334
Supplemental cash flow Information:				
Interest paid	$	-	$	-
Income taxes	$	-	$	-
Non-cash financing transaction:				
Shares issued for mineral property	$	11,000	$	10,000

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

Note 1 NATURE AND CONTINUANCE OF OPERATIONS

Jiulian Resources Inc. (the "Company") was incorporated on October 17, 2006 under the laws of British Columbia. The Company was a capital pool Company as defined in the TSX Venture Exchange (the "Exchange") Policy 2.4. On July 28, 2009, the Exchange accepted for filing the Company's Qualifying Transaction, as a result, the Company resumed trading as a Tier 2 mining company under the symbol "JLR", on August 26, 2009. The Company is now pursuing opportunities in the acquisition, exploration and development of mineral resource properties.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP") on a going concern basis with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has not generated revenues since inception and has never paid dividends and is unlikely to pay dividends or generate earnings in the immediate or foreseeable future. The continuation of the Company as a going concern is dependent upon the continued financial support from its shareholders, the ability of the Company to obtain necessary equity financing to continue operations, confirmation of the Company's interests in the underlying properties, and the attainment of profitable operations. These factors raise substantial doubt regarding the Company's ability to continue as a going concern. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

Note 2 SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Company have been prepared in accordance with Canadian GAAP and are stated in Canadian dollars.

a) **Estimates and Assumptions**
The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

b) **Income taxes**
Future income taxes relate to the expected future tax consequences of differences between the carrying amount of balance sheet items and their corresponding tax values. Future income tax assets, if any, are recognized only to the extent that, in the opinion of management, it is more likely than not that the future income tax assets will be realized. Future income tax assets and liabilities are adjusted for the effects of changes in tax laws and rates at the date of enactment or substantive enactment.

Note 2 **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd**)**

c) **Loss per Share**

The Company uses the treasury stock method of calculating diluted per share amounts whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The assumed conversion of outstanding common share options and warrants has an anti-dilutive impact in 2011 and 2010.

Basic loss per share is calculated using the weighted-average number of shares outstanding during the year.

d) **Cash and cash equivalents**

Cash and cash equivalents include cash, bank deposits, and highly liquid investments redeemable at any time and are stated at cost, which approximates fair value. The Company minimizes its credit risk by investing in cash equivalents with a major Canadian bank. Management believes that no concentration of credit risk exists with respect to investment of its cash and cash equivalents.

e) **Equipment**

Equipment is stated at cost less accumulated amortization. Amortization is provided over the estimated useful lives of the assets at the following annual rates and methods:

Automotive	30% using the declining balance method
Computer equipment	45% using the declining balance method

f) **Impairment of Long-Lived Assets**

Long-lived assets and intangibles to be held and used by the Company are 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 circumstance 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.

EIC 174 provides that an enterprise that is in the development stage with initially capitalized exploration costs but has not established mineral reserves objectively and therefore does not have a basis for preparing a projection of the estimated future net cash flow from the property, is not obliged to conclude that the capitalized costs have been impaired. However, such an enterprise should consider whether a subsequent write-down of capitalized exploration costs related to mining properties is required.

Note 2 **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd**)**

g) **Stock Based Compensation**

The Company accounts for stock options granted to directors, officers, employees and nonemployees using the fair value method of accounting. Accordingly, the fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock-based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

h) **Share issue costs**

Costs directly identifiable with the raising of capital will be charged against the related capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

i) **Foreign currency translation**

Monetary assets and liabilities are translated at balance sheet date exchange rates; other assets and liabilities have been translated at the rates prevailing at the date of transaction. Revenue and expense items, except for amortization, are translated at the average rate of exchange for the period. Amortization is converted using the rates prevailing at the dates of acquisition. Gains and losses from foreign currency translation are included in the statements of operations.

j) **Financial Instruments**

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions.

Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial assets and liabilities are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial assets are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the

Note 2 **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd**)**

j) **Financial Instruments** (Cont'd)

balance sheet. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financial instruments will be expensed in the period incurred.

As a result of the adoption of these new standards, the Company has classified its cash and term deposits as held-for-trading. Receivables are classified as loans and receivables. Cheques written in excess of bank balance, accounts payable and accrued liabilities and are classified as other financial liabilities.

k) **Mineral Properties**

The Company capitalizes acquisition and exploration expenditures related to mineral properties on an individual prospect basis until such time as an economic mineral body is defined or a prospect is abandoned. Amortization of assets used in connection with capitalized mineral property costs is also capitalized. Unrecoverable costs for projects determined not to be commercially feasible are expensed in the period in which the determination is made. Holding costs to maintain a property on a care and maintenance basis are expensed as incurred.

The recoverability of the amounts capitalized for the undeveloped mineral properties is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

Note 2 **SIGNIFICANT ACCOUNTING POLICIES** (Cont'd)

k) **Mineral Properties** (Cont'd)
Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous history characteristic of many mineral properties. The Company has investigated title to its mineral property and, to the best of its knowledge, title to its property is in good standing.

l) **Asset retirement obligations**
The Company recognizes the fair value of a legal liability for an asset retirement obligation in the year in which it is incurred and when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability. Changes in the liability for an asset retirement obligation due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the a carrying amount of the liability and the related long-lived asset.

The Company does not have significant asset retirement obligations.

m) **New Accounting standard not yet adopted**

International Financial Reporting Standards
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 generally accepted accounting principles ("GAAP") and 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.

Note 3 **TERM DEPOSIT**

The term investments (redeemable) are Guaranteed Investment Certificates at a chartered Canadian bank and interest is accrued at interest rates between 1.3% and 1.615% per annum, maturing between June 7, 2011 and March 18, 2013 (2010-0.90% per annum, matured Nov 20, 2010).

Note 4 **EQUIPMENT**

	February 28, 2011		
	Cost	Accumulated Amortization	Net Book Value
Automotive	$ 25,143	$ 10,183	$ 14,960
Computer equipment	3,144	1,993	1,151
Total	**$ 28,287**	**$ 12,176**	**$ 16,111**

	February 28, 2010		
	Cost	Accumulated Amortization	Net Book Value
Automotive	$ 25,143	$ 3,771	$ 21,372
Computer equipment	2,161	1,620	540
Total	**$ 27,303**	**$ 5,391**	**$ 21,912**

Note 5 **MINERAL PROPERTIES**

Hawk Property, British Columbia		
Balance, February 28, 2009	$	-
Acquisition Costs		35,000
Exploration Costs		
Assays		2,806
Consulting		36,328
Licenses, tax and insurance		546
Surveying, mapping		-
Travel and accommodation		2,740
Field supplies and miscellaneous		1,948
Balance, February 28, 2010		79,368
Acquisition Costs		31,000
Exploration Costs		
Assays		2,834
Consulting		12,587
Licenses, tax and insurance		1,948
Drilling, surveying, mapping		89,796
Travel and accommodation		3,059
Field supplies and miscellaneous		2,418
Write-off of mineral property		(223,010)
Balance, February 28, 2011	$	-

Note 5 **MINERAL PROPERTIES** (Cont'd)

Hawk Project

Pursuant to an option agreement with Happy Creek Minerals Ltd. ("Happy Creek"), the Company has an option agreement to acquire up to a 65% interest, in the Hawk Project located in the south-central Cariboo region of British Columbia (which includes the Grey Property), subject to an existing 2.5% NSR on the Hawk Project and an existing 2% NSR on the Grey Option. The Grey property adjoins Hawk to the south.

Consideration for an initial 55% interest consists of cash payments of $150,000, issuing an aggregate of 700,000 shares to Happy Creek and incurring aggregate exploration expenditures on the Hawk Project of $700,000 over a period of three years.

The Company has the exclusive option right to acquire an additional 10% interest in the Hawk Project by incurring additional exploration expenditures of $500,000 on the project on or before August 25, 2013.

Pursuant to the option agreement, the Company paid cash of $15,000 and issued 100,000 common shares to Happy Creek on August 25, 2009.

Pursuant to the option agreement, the Company paid cash of $20,000 and issued 100,000 common shares to Happy Creek on August 25, 2010.

During the year, management decided to not continue work on the Hawk Property. As a result, acquisition and exploration costs in the amount of $223,010 were written off.

Gunpoint Properties

Pursuant to an option agreement with Gunpoint Exploration Ltd. ("Gunpoint") dated January 25, 2011 and amended April 1, 2011, the Company has an option to acquire a 100% interest, in Gunpoint's Big Kidd and Little Fort claim groups located in the Kamloops and Nicola Mining Districts in British for consideration of cash payment of $100,000 and issuance of 2,500,000 common shares, subject to a 2.5% net smelting return royalty. The Company received conditional approved from TSX-V in March 2011.

Note 6 **RELATED PARTY TRANSACTION**

During the year, the Company paid consulting fees of $84,400 (2010-$45,200) to certain directors of the Company. $71,814 (2010-$18,215) has been recorded as consulting fees and $12,586 (2010-$26,985) has been capitalized to mineral properties.

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

Note 7 **FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT**

The carrying value of cash, term deposit, cheques written in excess of bank balance, and accounts payable and accrued liabilities approximate fair value due to the short-term nature of these financial instruments. Financial instruments that potentially subject the Company to concentration of credit risk consist principally of the term deposit. The Company places its term deposit with high credit quality financial institutions. The Company is not exposed to significant interest rate and credit risks. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

Credit Risk

Credit risk is the risk of an unexpected loss if a party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to cash, and accounts receivable. The Company has no significant concentration of credit risk arising from operations. Accounts receivables consist of Harmonized/Goods and Services Tax due from the Federal Government of Canada. Management believes that the credit risk concentration with respect to accounts receivable is remote. Management does not believe the receivables are impaired.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they come due. The Company has in place a planning and budgeting process to help determine the funds required to support the Company’s normal operating requirements on an ongoing basis. The Company tries to ensure that there is sufficient working capital to fund its ongoing operating expenditures. At February 28, 2011 the Company had a positive working capital of $1,274,146 (2010 - $1,586,921).

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, equity prices, and exposure of long term investments.

Note 7 **FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT** (Cont'd)

Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short term interest rates through the interest earned on cash balances and term deposits. The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in short-term deposits with its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks.

Foreign Currency Exchange Rate Risk
Foreign currency exchange rate risk is the risk that the fair value of financial instruments or future cash flows will fluctuate as a result of changes in foreign exchange rates. The Company's functional currency is the Canadian dollar and major transactions are transacted in Canadian dollars. Management believes the foreign exchange risk derived from currency conversions is minimal and therefore does not hedge its foreign exchange risk.

Fair Value Hierarchy

Financial instruments recorded at fair value on the Balance Sheet are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – valuation techniques based on inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

Note 7 **FINANCIAL INSTRUMENTS AND CAPITAL MANAGEMENT** (Cont'd)

Fair Value Hierarchy (Cont'd)

The following table presents the financial instruments recorded at fair value in the Balance Sheet, classified using the fair value hierarchy described above:

Assets as at February 28, 2011	Level 1	Level 2	Level 3
Cash	$ -	$ -	$ -
Term deposits	$ 1,293,347	$ -	$ -

Assets as at February 28, 2010	Level 1	Level 2	Level 3
Cash	$ 55,334	$ -	$ -
Term deposits	$ 1,532,285	$ -	$ -

Capital Management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from 2010.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, contributed surplus, and deficit. The availability of new capital will depend on many factors including a positive mineral exploration environment, positive stock market conditions, the Company's track record, and the experience of management. The Company is not subject to external covenants.

Note 8 **SHARE CAPITAL**

a) **Authorized:**

An unlimited number of common voting shares without par value.

Note 8 **SHARE CAPITAL** (Cont'd)

b) **Common Shares Issued:**

	2011		2010	
	Number of Shares	Amount	Number of Shares	Amount
Balance, beginning of year	9,620,000	$ 1,984,950	9,320,000	$ 1,944,950
Issued for cash:				
Agents options exercised	-	-	200,000	30,000
Issued for mineral property	100,000	11,000	100,000	10,000
Balance, end of year	**9,720,000**	**$ 1,995,950**	**9,620,000**	**$ 1,984,950**

Share issuances:

On August 25, 2010, pursuant to an option agreement, the Company issued 100,000 common shares to the Vendor at a value of $11,000. The shares were valued using the bid price on this date of $0.11 per share, as per the TSX Venture Exchange.

On August 25, 2009, pursuant to an option agreement, the Company issued 100,000 common shares to the Vendor at a value of $10,000. The shares were valued using the bid price on this date of $0.10 per share, as per the TSX Venture Exchange.

On June 18, 2009, 200,000 common shares were issued at $0.10/share for exercise of agent's options.

c) **Escrow Shares:**

As of February 28, 2011, the Company had 1,215,000 (2010 – 2,430,000) common shares in escrow.

The shares will be released from escrow upon issuance of a notice of final acceptance of a Qualifying Transaction by the Exchange. Such releases will either be over a period of 18 months or 3 years depending on the determination as to the Tier upon which the Company's shares are listed. While escrowed, the escrow shares may not be transferred, assigned or otherwise dealt with without the consent of the Exchange.

Note 8 **SHARE CAPITAL** (Cont'd)

d) **Stock Options**

The Board of Directors of the Company may from time to time, in its discretion, and in accordance with Exchange requirements, grant to directors and officers of the Company, non-transferable options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the issued and outstanding common shares of the Company, exercisable for a period of up to five years, from the date of grant. There are no vesting requirements under the stock option plan. The Board may, however, add such provisions in its discretion on a grant by grant basis.

As at February 28, 2011, the Company had outstanding stock options enabling the holders to acquire 920,000 shares as follows:

	Number of Shares	Exercise Price	Expiry Date
Stock options	350,000	$ 0.10	June 19, 2012
Stock options	40,000	$ 0.36	July 15, 2012
Stock options	530,000	$ 0.15	April 21, 2013
	920,000		

A summary of the status of the Corporation's stock options as of February 28, 2011, February 28, 2010, and changes during the years are as follows:

	2011			2010		
	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)
Outstanding and exercisable, beginning of year	390,000	$ 0.12	2.31	390,000	$ 0.12	3.31
Granted	530,000	0.15	3.00	-	-	
Outstanding and exercisable, end of year	920,000	0.14	1.79	390,000	$ 0.12	2.31

Note 8 **SHARE CAPITAL** (Cont'd)

d) **Stock Options** (Cont'd)

The fair value of options granted in fiscal 2011 was estimated at the date of grant using the *Black-Scholes Option Pricing Model* with the following assumptions:

	2011
Grant date stock price	$ 0.12
Exercise price	$ 0.15
Expected annual volatility	100%
Risk-free interest rate	2.2%
Expected life (years)	3
Expected dividend yield	0%

The fair value of options granted and vested during fiscal 2011 was estimated at $37,059 at the grant date using the Black-Scholes option pricing model.

e) **Contributed Surplus**

	2011	**2010**
Beginning of year	$ 35,500	$ 45,500
Stock based compensation	37,059	-
Allocation to share capital	-	(10,000)
End of year	$ 72,559	$ 35,500

Note 9 **INCOME TAXES**

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

Year ended	**February 28, 2011**	**February 28, 2010**
Net loss for the year before income tax	$ (446,003)	$ (120,536)
Combined federal and provincial tax rate	28.17%	29.75%
Income tax recovery at statutory rates	$ (125,639)	$ (35,859)
Unrecognized items for tax purposes	10,560	153
Effects of tax rate change	12,950	7,966
Change in valuation allowance	102,130	27,740
Future income tax expense	$ -	$ -

Note 9 **INCOME TAXES** (Cont'd)

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

		2011		**2010**
Non-capital loss carry forwards	$	127,277	$	79,933
Share issue costs		2,663		5,325
Mineral properties		55,753		-
Equipment		3,065		1,369
		188,756		86,627
Valuation allowance		(188,756)		(86,627)
	$	-	$	-

The Company has available non-capital losses for Canadian income tax purposes which may be carried forward to reduce taxable income in future years. If not utilized, the non-capital losses in the amount of $509,106 expire as follows:

2027	$	13,784
2028		94,885
2029		84,604
2030		126,460
2031		189,373
	$	509,106

In addition the Company has financing costs of $10,650 (2010-$21,300) available for tax deduction. The Company has not recognized any future income tax asset as realization is not considered more likely than not due to the uncertainty of the business and future taxable income.