

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited – Prepared by Management)

February 28, 2010

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)

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NOTICE OF NO AUDITOR REVIEW

The accompanying unaudited interim financial statements have been prepared by management and approved by the Audit Committee and Board of Directors.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENT OF OPERATIONS AND DEFICIT
FOR THE THREE MONTH PERIOD ENDED FEBRUARY 28, 2010
(Unaudited – Prepared by Management)

	Second Quarter		First Half	
	2010	2009	2010	2009
Revenue	\$ -	-	-	-
Expenses				
Stock based compensation (Note 8)	-	32,060	-	32,060
Consulting Fees (note 15)	75,000	75,000	75,000	75,000
Subcontract (note 15)	27,500	31,500	59,000	63,000
Professional fees	20,156	12,866	20,549	13,040
Insurance	1,189	1,450	1,189	1,450
Office	1,207	2,096	5,138	2,299
Amortization	500	713	999	1,427
Travel and promotion	406	1,560	964	3,651
Automotive	147	3,034	806	3,796
Telephone	2,595	2,584	5,344	4,721
Interest and bank charges	223	259	384	688
LOSS BEFORE THE FOLLOWING ITEMS	128,923	163,122	169,373	201,132
OTHER INCOME (EXPENSE)	-	(12,081)	-	(12,081)
LOSS BEFORE INCOME TAXES	(128,923)	(151,041)	(169,373)	(189,051)
FUTURE INCOME TAX RECOVERY (notes 8 and 11)	-	(58,946)	-	(58,946)
NET AND COMPREHENSIVE LOSS	(128,923)	(92,095)	(169,373)	(130,105)
DEFICIT, beginning of period	(7,197,693)	(7,008,088)	(7,157,243)	(6,970,078)
DEFICIT, end of period	(7,326,616)	(7,100,183)	(7,326,616)	(7,100,183)
BASIC AND DILUTED LOSS PER SHARE (note 10)	(0.003)	(0.003)	(0.004)	(0.003)

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)
CONSOLIDATED BALANCE SHEETS
(Unaudited – Prepared by Management)

	February 28, 2010 (Unaudited)	August 31, 2009 (Audited)
	\$	\$
ASSETS		
CURRENT		
Cash	10,338	10,928
Accounts receivable	146,927	354,408
Deposits	5,000	5,000
	162,265	370,336
PROPERTY, PLANT AND EQUIPMENT (note 5)	5,682	6,681
MINERAL EXPLORATION PROPERTIES (note 6)	3,748,383	3,673,880
	3,916,330	4,050,897
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	171,605	196,485
Due to shareholders and directors (note 7)	186,635	122,885
	358,240	319,370
DUE TO SHAREHOLDERS AND DIRECTORS (note 7)	240,000	240,000
	598,240	559,370
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 8)	9,371,786	9,375,850
CONTRIBUTED SURPLUS (Note 9)	1,272,920	1,272,920
DEFICIT	(7,326,616)	(7,157,243)
	3,318,090	3,491,527
	3,916,330	4,050,897

Nature of operations and going concern (note 1)

Approved On Behalf Of The Board

Director (signed) "Stan Marshall"

Director (signed) "Max Morpurgo"

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE THREE MONTH PERIOD ENDED FEBRUARY 28, 2010
(Unaudited – Prepared by Management)

	Second Quarter		First Half	
	2010	2009	2010	2009
	\$	\$	\$	\$
CASH FLOWS FROM OPERATING ACTIVITIES				
Net and comprehensive loss	(128,923)	(92,095)	(169,373)	(130,105)
Items not affecting cash				
Stock-based compensation	-	32,060	-	32,060
Amortization	500	713	999	1,427
Future income taxes	-	(58,946)	-	(58,946)
	<u>(128,423)</u>	<u>(118,268)</u>	<u>(168,374)</u>	<u>(155,564)</u>
Change in non-cash working capital items				
Accounts receivable	9,018	9,170	207,481	7,770
Deposits	-	-	-	(5,000)
Deferred revenue	-	100,000	-	100,000
Accounts payable and accrued Liabilities	85,749	(27,450)	(24,880)	(31,267)
	<u>94,767</u>	<u>81,720</u>	<u>182,601</u>	<u>71,503</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of mineral exploration properties	<u>(56,248)</u>	<u>(62,293)</u>	<u>(74,503)</u>	<u>(85,209)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Net change in advance from shareholders and directors	83,750	(131,287)	63,750	(147,087)
Share issue costs	(298)	(3,687)	(4,064)	(7,588)
Issuance of share capital	-	251,000	-	298,000
	<u>83,452</u>	<u>116,026</u>	<u>59,686</u>	<u>143,325</u>
CHANGE IN CASH POSITION	(6,452)	17,185	(590)	(25,945)
CASH, beginning of period	<u>16,790</u>	<u>18,726</u>	<u>10,928</u>	<u>61,856</u>
CASH, end of period	10,338	35,911	10,338	35,911

OTHER INFORMATION (note 12)

MICREX DEVELOPMENT CORP.
(An Exploration Stage Company)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
PERIOD ENDED FEBRUARY 28, 2010
(Unaudited – Prepared by Management)

1. NATURE OF OPERATIONS

Micrex Development Corp. (the "Company") was incorporated under the Business Corporations Act (Alberta) on February 16, 1987.

The Company is considered to be primarily in the exploration stage with respect to its mineral properties. The Company has determined for some properties whether they contain economically recoverable reserves however they are not in production on any of their properties and some properties are still in the exploration phase. The Company has had a working capital deficiency in the past and has suffered recurring losses. The recoverability of the amounts shown for mineral properties is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development and upon future profitable production. The Company does have a plan for the development of two properties and needs to obtain a permit for one property and for the other property are looking for a long term customer order before they start production.

These consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business in the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing, receive continued support from its creditors and to commence profitable operations in the future.

These consolidated financial statements do not give effect to any adjustments which might be necessary if the "going concern" basis were not appropriate.

Although the Company has taken steps to verify the title to resource properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, transfers or native land claims and may be affected by other unknown items.

2. BASIS OF PRESENTATION

These interim consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles following the same accounting policies and methods of computation as the consolidated financial statements for the fiscal year ended August 31, 2009. The interim consolidated financial statements should be read in conjunction with the August 31, 2009 annual financial statements.

The consolidated financial statements of the Company include the financial statements of the Company and those of Gold Standard Mining Corp. in which the Company holds a 100% interest. Gold Standard Mining Corp. is the registered owner of the Big Horn Mine property and related equipment and has no other assets or liabilities but has no separate ongoing operations.

The Company holds a 100% interest in Gee Cee Mines Ltd. which acts as a bare trustee and owns claims relating to the Wild Horse placer mine. The Company has recorded its interest in these claims at the purchase price of the shares plus amounts expended on development. Gee Cee Mines Ltd. has no other operations, assets or liabilities.

MICREX DEVELOPMENT CORP.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
PERIOD ENDED FEBRUARY 28, 2010
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3. CHANGE IN ACCOUNTING POLICY

On September 1, 2008, the Company adopted CICA Section 1535 Capital Disclosures. This Section establishes standards for disclosing information about an entity's objectives, policies and processes for managing its capital structure. The disclosures have been included in Note 14.

On September 1, 2008, the Company adopted the following two new CICA standards: Financial Instruments - Disclosures (Section 3862) and Financial Instruments - Presentation (Section 3863), which replace Financial Instruments - Disclosure and Presentation (Section 3861). The new disclosure standard increases the emphasis on the risks associated with both recognized and unrecognized financial instruments and how those risks are managed. The new presentation standard carries forward former presentation requirements.

These changes had no impact at the time of initial adoption of the recommendations on the opening balances.

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared using the historical cost basis in accordance with Canadian generally accepted accounting principles. These consolidated financial statements have, in management's opinion, been properly prepared within the framework of the accounting policies summarized as follows:

Use of estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles 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 balance sheet date and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates. The significant estimates pertain to the recovery of mineral exploration expenditures, the physical and economic lives of equipment, the completeness of the accounts payable and the assumptions utilized in determining fair value of stock-based compensation for options and the fair value of warrants.

Cash

Cash includes balances held in financial institutions.

Property, plant and equipment

Property, plant and equipment is recorded at cost. The Company provides for amortization using the following methods at rates designed to amortize the cost of the property, plant and equipment over its estimated useful life. The annual amortization rates and methods are as follows:

	<u>Methods</u>	<u>Rates</u>
Equipment	Diminishing balance	30%
Automotive	Diminishing balance	30%
Computer equipment	Diminishing balance	30%
Furniture and fixtures	Diminishing balance	20%

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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4. SIGNIFICANT ACCOUNTING POLICIES, continued

Mineral Properties

Development Properties

At present, all activities of the Company are in the exploration stage. The cost of mineral properties or interests therein and all related exploration costs excluding administration costs are being capitalized until the respective properties are determined to be capable of sustained commercial production, or there has been an impairment in value. Each property is assessed periodically by management to see if there is an impairment in the overall value. When a property is determined to be non-commercial, non-productive or its carrying value is not considered to be fully recoverable based on the net present value of future expected cash flows, or its value is otherwise impaired, those costs in excess of estimated future recoveries are charged to operations. The ultimate recovery of the costs of exploration expenditures and the satisfaction of future commitments is dependent on the Company's ability to raise sufficient capital in order to further develop and determine the commercial viability of the properties. The Company expenses administration costs as incurred. On commencement of commercial production, net acquisition costs and exploration and development costs on a property-by-property basis will be amortized to operations on the unit-of-production basis, based on the economic reserves of the property.

Asset Retirement Obligation

The Company recognizes the fair value of legal obligations associated with the retirement of long-lived tangible assets in the period in which they are incurred, with a corresponding increase in the carrying amount of the long-lived asset. The liability accretes until the Company expects to settle the retirement obligation. These asset retirement costs are depleted using the unit of production method and actual costs to retire the asset will be deducted from the liability as incurred. At this time, the Company does not foresee the necessity to make any material expenditure in this area and the Company is not committed to any significant reclamation or other asset retirement obligations until such time as production commences.

Value

The amounts shown for the mineral properties represent costs to date (net of impairment write-downs), and do not necessarily represent present or future values as they are entirely dependent upon the economic recovery of current and future reserves.

Future income taxes

The Company follows the asset and liability method of accounting for income taxes. Under this method, the Company records future income taxes for the effect of any difference between the accounting and income tax basis of an asset or liability, using the substantively enacted income tax rates. Accumulated future income tax balances are adjusted to reflect changes in income tax rates that are substantively enacted with the adjustment being recognized in earnings in the period that the change occurs. Future tax assets are recognized to the extent that they are more likely than not to be realized.

MICREX DEVELOPMENT CORP.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
PERIOD ENDED FEBRUARY 28, 2010
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4. SIGNIFICANT ACCOUNTING POLICIES, continued

Financial instruments

The Company has classified their financial instruments as follows:

Cash is designated as “held-for-trading” and is measured at fair value with gains and losses resulting from the remeasurement at the end of each period being recognized in net income.

Accounts receivable is designated as “loans and receivables”. They are recorded at cost which, upon their initial measurement, is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Accounts payable and accrued liabilities and due to shareholders and directors are designated as “other liabilities”. They are recorded at cost which, upon their initial measurement, is equal to their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.

Flow-through shares

The resource expenditure deductions for income tax purposes related to exploratory and development activities funded by flow-through share arrangements are renounced to investors in accordance with tax legislation. A future tax liability is generated upon the issuance of such shares. The liability is reduced when the related expenditures are incurred.

Stock-based compensation

The Company has a stock based compensation plan, which is described in note 8. Awards of options under this plan are expensed based on the fair value of the options at the grant date. The amount is credited to contributed surplus. Fair values are determined using the Black-Scholes option-pricing model. If the options are subject to a vesting period, the expense is recognized over this period. Any consideration paid by employees on exercise of stock options or purchase of stock is credited to share capital plus the amounts originally recorded as contributed surplus.

Loss per share

The calculation of basic loss per share is based on net earnings divided by the weighted average number of common shares outstanding.

The treasury stock method of calculating diluted per share amounts is used 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. In addition, diluted common shares also include the effect of the potential exercise of any outstanding warrants.

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5. PROPERTY, PLANT AND EQUIPMENT

	February 28, 2010 (Unaudited)		August 31, 2009.	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
	\$	\$	\$	\$
Equipment	415,250	412,450	2,800	3,294
Automotive	40,540	38,851	1,689	1,987
Computer equipment	36,322	35,181	1,141	1,342
Furniture & fixtures	750	698	52	58
	<u>492,862</u>	<u>487,180</u>	<u>5,682</u>	<u>6,681</u>

Amortization in the current period totaled \$500 (2009 - \$713)

6. MINERAL EXPLORATION PROPERTIES

	February 28, 2010	August 31, 2009
Acquisition costs	1,730,250	1,730,250
Deferred exploration costs	2,018,133	1,943,630
	<u>3,748,383</u>	<u>3,673,880</u>
Consists of:		
Burmis Magnetite Mine, Alberta	2,381,248	2,309,620
Big Horn Mine, British Columbia	862,791	860,771
Deadwood Mine, New Mexico	-	-
St. Charles de Bourget, Quebec	504,344	503,489
	<u>3,748,383</u>	<u>3,673,880</u>

a) Burmis Magnetite Mine, Alberta

The Company has a 32% (2009 - 32%) equity interest in the claims and 100% interest in all production from the claims relating to the Burmis Magnetite deposit located in the Crowsnest Pass area of Alberta. The Company originally acquired a 12% equity interest in this property in 1997 by the issuance of 100,000 common shares having a value of \$103,000, plus \$10,000 cash, plus a \$200,000 expenditure commitment which was fulfilled in a previous year. The purchase agreement provides the Company the right to acquire an additional 2% equity interest per year by the annual payment of \$70,000 by way of cash or common shares or the Company can purchase outright the remaining equity interest at any time. Accordingly, future payments totaling \$2,380,000 would be necessary to acquire the remaining 68% interest, although there is no commitment to acquire this additional interest.

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6. MINERAL EXPLORATION PROPERTIES, continued

b) Big Horn Mine, British Columbia

The Company has an 87.5% interest in Big Horn hard rock mine located in the Atlin area of British Columbia. In the 2007 year, the Company sold a 12.5% interest in this site to an arms length third party for proceeds of \$300,000, resulting in a gain on disposition of \$187,613. This property was acquired in 1993 by the issuance of 2,747,283 common shares having a value of \$631,875 (\$159,270 for plant and equipment; \$472,605 for mining property).

c) Deadwood Mine, New Mexico

The Company owns a 100% interest in Deadwood patented hard rock mine and Suburst patented hard rock mine claim located in Catron County, New Mexico, U.S.A. The Company owns the land and mineral rights. The license is current on this property and the Company still considers it an active property. During the 2009 fiscal year, the Company sold on option to purchase 100% of their interest in the site to an arm's length party for proceeds of \$600,000. Once the entire balance has been paid the title will transfer to the new owner.

d) St. Charles de Bourget, Quebec

The Company owns a 26%; (2009 - 24%) equity interest in the claims and 100% interest in all production from the claims relating to the Quebec magnetite deposit located near Chicoutimi, Quebec, Canada. The Company originally acquired a 12% equity interest in this property in the 2005 fiscal year by the issuance of 290,323 common shares having a fair value of \$90,290. The purchase agreement provides the Company the right to acquire an additional 2% equity interest per year by the annual payment of \$45,000 by way of cash or common shares or the Company can purchase outright the remaining equity interest at any time. In the 2009 fiscal year 450,000 (2008 – 152,542) common shares were issued to purchase the 2% interest per year for \$45,000 per year. Accordingly, future payments totaling \$1,710,000 would acquire the remaining 74% interest, although there is no commitment to acquire this additional interest.

e) Wild Horse, British Columbia

The Company owns 100% (2009– 100%) interest in Wild Horse placer mine located in Fort Steele, British Columbia. This property was originally acquired in 1996, however management has assessed this property and has determined there to be an impairment in value. As a result the value of this property has been written down to zero however the Company still holds a valid license on the property.

f) Mount Royal, New Mexico

The Company owns a 33% interest in Mount Royal patented hard rock mine claim located in the Steeple Rock district of New Mexico, U.S.A. The Company owns the land and mineral rights. Management has assessed this property and has determined there to be an impairment in value and this property has been written down to zero however the Company still holds a valid license on the property.

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PERIOD ENDED FEBRUARY 28, 2010
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7. DUE TO SHAREHOLDERS AND DIRECTORS

February 28, 2010 August 31, 2009

The balances due to shareholders and directors are unsecured, non-interest bearing and have no specific terms of repayment. All of the balances are shown as current as all of the loans are due on demand.

186,635 122,885

Due to shareholders is a convertible debenture that matures on May 15, 2010 and bears interest at 25% per annum. Upon expiry, the loan will be repaid in either cash, shares or a 2% working interest in the St. Charles Magnetite deposit. As part of the terms of the convertible debentures 960,000 warrants were issued that expired on May 15, 2009 and were exercisable for one common share for the price of \$0.25 per share. The fair value of these warrants were calculated as \$57,600 and were recorded in contributed surplus (see note 9) and interest expense.

240,000 240,000

426,635 362,885

Less current portion

186,635 122,885

240,000 240,000

MICREX DEVELOPMENT CORP.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
PERIOD ENDED FEBRUARY 28, 2010
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8. SHARE CAPITAL

Authorized

Unlimited number of common voting shares
 10,000,000 preferred shares
 10,000,000 convertible preferred shares

Preferred shares and convertible preferred shares may be issued in one or more series. The directors are authorized to fix the number of shares in each series to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

Common share transactions during the period

	Number	Amount
Balance August 31, 2008	34,207,564	9,141,008
Common shares issued for cash less warrants value of \$23,500	293,750	23,500
Flow through shares issued less warrants value of \$49,698	2,484,900	201,302
Issued for acquisition of mining properties	450,000	45,000
Options exercised	300,000	52,145
Tax effect of flow through shares	-	(58,946)
Share issue costs	-	(28,159)
	37,736,214	9,375,850
Balance August 31, 2009	37,736,214	9,375,850
Share issue costs	-	(4,064)
	37,736,214	9,371,786
Balance February 28, 2010	37,736,214	9,371,786

On December 30, 2008, the Company issued 251 flow through units for \$1,000 per unit. Each unit consisted of 7,500 flow through share, 2,400 non-flow through shares and 9,900 common purchase warrant with an exercise price of \$0.15 that expire in one year. The fair value of \$49,698 has been removed from the total proceeds of \$251,000 and recorded in contributed surplus. The future tax effect on the flow through shares issued of \$58,946 has been charged against share capital.

A total of 450,000 (2008 –514,706) common shares were issued for mineral properties in the year ended August 31, 2009 for a total value of \$45,000 (2008 - \$115,000).

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8. SHARE CAPITAL, continued

On September 15, 2008, the Company finalized a private placement for 293,750 share units consisting of one common share and one common share warrant at \$0.16 per unit. The fair value of \$23,500 relating to the warrant has been removed from the total proceeds of \$47,000 and recorded in contributed surplus.

During the 2009 fiscal year 300,000 (2008 – nil) options were exercised for proceeds of \$30,000 (2008 - \$nil) and the related contributed surplus was moved to share capital totalling \$22,145 (2008 - \$nil).

Escrowed shares

Certain of the common shares issued by private placement for cash or other consideration were held in escrow. As at the fiscal 2009 year end nil (2008 - 958,689) common shares were deposited in performance escrow and were to be released on the basis of one share for each \$0.23 of development expenditures on the Big Horn mining property. During the 2009 fiscal year 958,689 (2008 -nil) common shares were released from escrow.

Stock options

The Company has a stock option plan administered by the Board of Directors, under which the Company may reserve a maximum of 10% of the issued and outstanding listed common shares. Under this plan, the Company has currently granted options for 3,438,621 (2009 – 3,308,621) common shares, having various exercise prices as determined on the date of issuance of the options. These options have no vesting period and may be exercised at any time within five years of issuance and expire thirty days following the date the optionee ceases to be a director, officer or employee, or one year following the date of death of the optionee. All options are exercisable as at the period end.

The following summarizes option activities:

	Number of Options	Weighted avg exercise price
Options outstanding August 31, 2008.	3,394,285	\$ 0.26
Granted	1,249,336	\$ 0.10
Expired	(820,000)	\$ 0.30
Exercised	<u>(300,000)</u>	\$ 0.10
Options outstanding August 31, 2009.	3,523,621	\$ 0.20
Expired	<u>(85,000)</u>	\$ 0.22
February 28, 2010	<u>(3,438,621)</u>	\$ 0.20

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8. SHARE CAPITAL, continued

The following summarizes the options outstanding and exercisable at February 28, 2010.

Number of Options	Exercise Price	Expiry Date
384,000	\$ 0.16	April 2010
75,000	\$ 0.23	September 2010
375,521	\$ 0.30	December 2010
520,000	\$ 0.25	March 2011
140,000	\$ 0.29	February 2012
673,000	\$ 0.27	May 2012
80,000	\$ 0.25	July 2012
241,764	\$ 0.18	February 2013
234,336	\$ 0.10	January 2014
715,000	\$ 0.10	July 2014

The fair values of the share options granted in the period ended February 28, 2010 and the year ended August 31, 2009, using the Black-Scholes option pricing model are as follows:

July 6, 2009: The assumptions utilized in determining the value of 715,000 stock options issues to directors was at a spot rate of \$0.10, a strike price of \$0.10, a risk-free interest rate of 2.29%, volatility of 130%, expected yield of nil, and a maturity of 5 years. The estimate of the fair value of options issues is \$64,350 which are fully vested.

January 2, 2009: The assumptions utilized in determining the value of 534,336 stock options issued to directors was at a spot rate of \$0.07, a strike price of \$0.10, a risk-free interest rate of 1.75%, volatility of 130%, expected yield of nil, and a maturity of 5 years. The estimate of the fair value of options issues is \$32,060 which are fully vested.

Total stock based compensation expense for the period was \$nil (2009 - \$32,060). Option pricing models require the input of subjective assumptions, and, accordingly, the fair value estimates can vary as a result of changes in the assumptions.

Warrants

At February 28, 2010, the Company had 2,484,900 (2009 – 4,697,339) warrants outstanding:

2,484,900 warrants expiring December 29, 2010 entitling the subscribers to acquire one common share per warrant at a price of \$0.15 per share. These warrants were issued as part of a private placement of flow through shares on December 30, 2008. The fair value of the warrants issued is estimated to be \$49,698. The assumptions used were a share price of \$0.07, strike price of \$0.15, risk-free rate of 1.59%, volatility of 130%, no expected dividend yield and one year to maturity.

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9. CONTRIBUTED SURPLUS

Balance August 31, 2008.	1,125,456
Fair value of stock based compensation	96,410
Fair value of warrants issued	73,198
Fair value of options exercised	(22,144)
	<hr/>
Balance August 31, 2009	1,272,920
Fair value of warrants issued	-
	<hr/>
Balance February 28, 2010	<u>1,272,920</u>

10. LOSS PER SHARE

Per share amounts have been calculated using the weighted average number of shares outstanding. Diluted loss per share has not been presented for 2010 or 2009 as the effect of the conversion of options and warrants is anti-dilutive.

		2010
Net and comprehensive loss	Shares	Loss per share
(169,373)	37,736,214	(0.004)
		<hr/>
		2009
Net and comprehensive loss	Shares	Loss per share
(92,095)	35,300,694	(0.003)
		<hr/>

11. FUTURE INCOME TAXES

a) The components of future income tax balances are as follows:

	February 28, 2010	August 31, 2009
	\$	\$
<i>Future income tax asset</i>		
Non-capital loss carryforwards	876,154	876,154
Share issue costs	18,702	18,702
Other	2,151	2,151
Future income tax liability		
Carrying amount of property, plant and equipment in excess of tax basis	(475,077)	(475,077)
	<hr/>	<hr/>
	421,930	421,930
Valuation allowance	(421,930)	(421,930)
	<hr/>	<hr/>
	-	-

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11. FUTURE INCOME TAXES, continued

b) The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate of 29.00% (2009 – 31.00%) to the loss for the periods as follows:

	<u>February 28, 2010</u>	<u>February 28, 2009</u>
Loss for the period before income taxes	(169,373)	(130,105)
Anticipated income tax recovery	(49,118)	(40,333)
Expiry of non-capital loss		
Effect of change in tax rates		
Permanent expense differences from stock-based compensation		
Change in valuation allowance	49,118	40,333
Additions to share issuance costs	-	-
Other		
Income tax (recovery)	<u>-</u>	<u>-</u>

For income tax purposes, the Company has losses carried forward from prior years which can be applied to reduce future years' taxable income. These losses expire as follows:

	\$
2009	297,323
2010	276,012
2011	270,442
2012	300,787
2016	358,184
2027	314,318
2028	594,187
2029	609,968
	<u>3,021,221</u>

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12. OTHER INFORMATION

Significant non-cash transactions for the period consisted of the issuance of common shares as consideration for acquisition of interests in mining properties.

- a) Burmis Magnetite deposit – issuance of nil; (2009 – nil) common shares with an attributed value of \$nil; (2008 - \$nil) to acquire an additional nil%; (2009 – nil%) equity interest in the property.
- b) St. Charles de Bourget deposit – issuance of nil (2009 – nil) common shares with an attributed value of \$nil; (2009 - \$nil) to acquire an additional nil%; (2009 – nil%) equity interest in the property.

No interest or income taxes were paid or received during the current and prior years.

13. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash and accounts receivable which will result in future cash receipts, as well as accounts payable and accrued liabilities and due to shareholders and directors which will result in future cash outlays.

The Company's activities expose it to a variety of risks in respect of certain of the financial instruments held. Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

(a) Property risk

The Company is dependent upon the projects currently held unless they acquire or develop additional significant properties. If no additional mineral properties are acquired by the Company, any adverse development affecting the existing projects would have a material adverse effect on the Company's financial condition and results of operations.

(b) Fair value

In management's opinion the Company's carrying value of cash, accounts receivable, accounts payable and accrued liabilities approximates its fair value due to the immediate or short-term maturity of these instruments.

The fair value of the amounts due to shareholders and directors are less than carrying value, as the amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value cannot be calculated with any degree of certainty.

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13. FINANCIAL INSTRUMENTS, continued

(c) Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity and equity prices.

(i) Interest rate risk

The Company is exposed to interest rate risk through fixed rate borrowings. The fixed rate debt is subject to interest rate price risk, as the value will fluctuate as a result of changes in market rates.

(ii) Currency risk

Currency risk is the risk to the Company's earnings that arises from fluctuations of foreign exchange rates and the degree of volatility of these rates. The Company does not use derivative instruments to reduce its exposure to foreign currency risk. The Company currently does not hold a US bank account and has disposed of the only active US exploration property that it held.

(iii) Commodity price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, particularly as they relate to base and precious metals, individual equity movements, and the stock market in general to determine the appropriate course of action to be taken by the Company.

(d) Credit risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivable. Cash and cash equivalents are held with a reputable Canadian chartered bank, from which management believes the risk of loss to be minimal.

Accounts receivable consist of sales tax receivable from government authorities in Canada. Management believes that the credit risk concentration with respect to financial instruments included in sales tax receivable is minimal. Within the receivable balance there is still a portion of the option to purchase a mineral property proceeds outstanding. The majority of the amount has been received subsequent to year end and the title of the property does not transfer until the entire balance has been paid so management believes that this amount will be received.

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13. FINANCIAL INSTRUMENTS, continued

(e) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. The Company currently does not have enough cash to cover the current accounts payable however subsequent to year end a large amount of the accounts receivable was received which gives the Company enough cash to pay the short term liabilities.

14. CAPITAL DISCLOSURE

The capital structure of the Company consists of equity attributable to common shareholders and includes share capital \$9,371,786 (2009 - \$9,299,277), contributed surplus \$1,272,920 (2009 - \$1,230,714), and deficit \$7,326,616 (2009 - \$7,100,183).

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. 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 team to sustain the future development of the business.

The properties in which the Company currently has interests in are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital, raise additional funds as needed and look for profitable sale opportunities of their properties when available. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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

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

15. RELATED PARTY TRANSACTIONS

During the quarter, the Company recorded expenses of \$75,000; (February 28, 2009 - \$75,000) to a director for consulting and management services provided.

During the quarter, the company recorded expenses of \$27,500 (February 28, 2009 - \$31,500) to certain shareholders for subcontract services.

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15. RELATED PARTY TRANSACTIONS, continued

The above transactions occurred in the normal course of operations and are recorded at the exchange amount which represents the consideration established and agreed to by the related parties.

16. SEGMENT DISCLOSURE

The Company is segmented based on how management analyzes performance and makes decisions. Management has assessed that the Company operates in one business segment, being precious metals mining, geographically contained within the North American mining segment.

	2010 Property, Plant and equipment and mineral exploration properties	2009 Property, Plant and equipment and mineral exploration properties
Canada	3,750,136	3,417,505
United States	1,047	368,133
	<u>3,751,183</u>	<u>3,785,638</u>

17. RECENT ACCOUNTING PRONOUNCEMENTS

The Accounting Standards Board (AcSB) has approved new accounting recommendations which have not yet come into effect. The following is a summary of the new recommendations:

Consolidated Financial Statements

Section 1601, Consolidated Financial Statements establishes standards for the preparation of consolidated financial statements and will replace the existing Section 1600, Consolidated Financial Statements. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, Business Combinations and Section 1602, Non-Controlling Interests.

Non-Controlling Interests

Section 1602, Non-Controlling Interests establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. Earlier adoption is permitted as of the beginning of a fiscal year, in which case an entity would also early adopt Section 1582, Business Combinations and Section 1601, Consolidated Financial Statements.

These sections will not impact the Company as it presently operates, however they will be effective if the Company undertakes a business combination in the future.

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17. RECENT ACCOUNTING PRONOUNCEMENTS, continued

International Financial Reporting Standards

The Canadian Accounting Standards Board ("AcSB") in 2006 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 International Financial Reporting Standards ("IFRS") over a five-year transitional period. In February 2008 the AcSB announced that 2011 is the changeover date for publicly-accountable enterprises 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 January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended December 31, 2010. While the Company has begun assessing the adoption of IFRS for 2011, the financial reporting impact of the transition of IFRS cannot be reasonably estimated at this time.

Financial Instruments - Disclosures

In June 2009, the CICA amended Section 3862, Financial Instruments - Disclosures ("Section 3862"), to include additional disclosure requirements about fair value measurement for financial instruments and liquidity risk disclosures. These amendments require a three-level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The amendments to Section 3862 apply for annual financial statements relating to fiscal years ending after September 30, 2009. The Company has not yet adopted the disclosure requirements of this standard and does not expect them to have a material impact on the Company's consolidated financial statements.