STIKINE ENERGY CORP.

(formerly Stikine Gold Corporation)

FINANCIAL STATEMENTS

For the Years Ended

February 28, 2011 and February 28, 2010

(Expressed in Canadian Funds)

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

To the Shareholders of Stikine Energy Corp.:

The accompanying financial statements of Stikine Energy Corp. (the "Company") have been prepared by, and are the responsibility of management of the Company. The financial statements are prepared in accordance with accounting principles generally accepted in Canada, and reflect management's best estimates and judgement based on currently available information.

The Board of Directors discharges its responsibilities for the financial statements primarily through activities of its Audit Committee composed of three directors. This Committee meets with management and the independent auditors to review the scope and results of the annual audit, and to review the audited financial statements and related financial reporting matters prior to submitting the financial statements to the Board for approval.

The Company's independent auditors, PricewaterhouseCoopers LLP, who are appointed by the shareholders, conducted an audit in accordance with Canadian generally accepted auditing standards. Their report outlines the scope of their audit and gives their opinion on the financial statements.

Management has developed and maintains a system of internal controls to provide reasonable assurance that the Company's assets are safeguarded, transactions are authorized, and financial information is accurate and reliable.

"David Skerlec"

David J. Skerlec
Chief Financial Officer and Secretary

"Scott Broughton"

Scott E. Broughton
President and Chief Executive Officer

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June 1, 2011

Independent Auditor's Report

To the Shareholders of Stikine Gold Corporation

We have audited the accompanying financial statements of Stikine Gold Corporation (the "Company"), which comprise the balance sheets as at February 28, 2011 and 2010 and the statements of operations 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 audit 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 the Company as at February 28, 2011 and 2010 and its results of operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Signed "PricewaterhouseCoopers LLP"

Chartered Accountants

Stikine Energy Corp.

(formerly Stikine Gold Corporation)

Balance Sheets

As at February 28

Canadian Funds

		2011		2010
ASSETS				
Current				
Cash and cash equivalents	**$**	**4,753,335**	$	15,429
Receivables		**91,781**		4,771
Prepaid expenses		**115,277**		3,133
		4,960,393		23,333
Resource Property Costs *Schedule, (Note 3)*		**5,913,504**		983,193
Reclamation Bonds *(Note 6)*		**16,000**		7,500
Equipment *(Note 4)*		**23,737**		3,352
	$	**10,913,634**	$	1,017,378
LIABILITIES				
Current				
Accounts payable and accrued liabilities	**$**	**420,716**	$	54,981
Due to related parties *(Note 7e)*		**50,435**		30,478
		471,151		85,459
SHAREHOLDERS' EQUITY				
Share Capital *(Note 5a)*		**14,912,555**		8,371,315
Contributed Surplus *(Note 5d)*		**3,969,404**		1,048,537
Deficit		**(8,439,476)**		(8,487,933)
		10,442,483		931,919
	$	**10,913,634**	$	1,017,378

Financial Instruments *(Note 9)*

ON BEHALF OF THE BOARD:

"Scott Broughton", Scott E. Broughton, Director

"David Skerlec", David J. Skerlec, Director

- See Accompanying Notes -

Stikine Energy Corp.
(formerly Stikine Gold Corporation)
Statements of Operations and Deficit
For the Years Ended February 28
Canadian Funds

		2011		2010
General and Administrative Expenses				
Stock-based compensation *(Note 5b)*	$	687,242	$	9,483
Rent, office and sundry		97,926		52,694
Audit, accounting and legal fees		49,583		36,461
Consulting and management fees		51,095		37,900
Listing and filing fees		30,866		15,894
Advertising, promotion and shareholder relations		17,028		32,721
Travel		15,587		5,872
Amortization		4,765		1,078
Bank charges and interest		1,480		360
		955,572		192,463
Loss before the Undernoted				
Resource costs expensed or written-off		1,200		15,211
Tax credit on abandoned property		-		(49,721)
Interest income		(10,983)		(666)
Loss before taxes		945,789		157,287
Future income tax recovery *(Note 8)*		(994,246)		(16,719)
Loss (Income) and Comprehensive Loss (Income) for the Year		(48,457)		140,568
Deficit – Beginning of Year		8,487,933		8,347,365
Deficit – End of Year	$	8,439,476	$	8,487,933
Income (Loss) per Share - Basic and Diluted	$	0.00	$	(0.01)
Weighted Average Number of Common Shares Outstanding		65,781,068		46,017,095

- See Accompanying Notes -

Stikine Energy Corp.

(formerly Stikine Gold Corporation)

Statements of Cash Flows

For the Years Ended February 28

Canadian Funds

Cash Resources Provided By (Used In)		**2011**		2010
Operating Activities				
Income (loss) for the year	**$**	**48,457**	$	(140,568)
Items not affecting cash				
Stock-based compensation		**687,242**		9,483
Amortization		**4,765**		1,078
Future income tax recovery		**(994,246)**		(16,719)
Changes in non-cash working capital				
Receivables		**(87,010)**		11,735
Prepaid expenses		**(14,613)**		8,474
Accounts payable and accrued liabilities		**7,130**		(9,105)
Due to related parties		**(8,476)**		20,403
		(356,751)		(115,219)
Investing Activities				
Resource property costs		**(3,418,821)**		(890,834)
B.C. exploration tax credit proceeds		**-**		5,060
Reclamation bonds posted		**(8,500)**		(3,500)
Reclamation bonds refunded		**-**		6,000
Equipment purchases		**(25,150)**		-
		(3,452,471)		(883,274)
Financing Activities				
Equity issued for cash		**9,333,500**		960,000
Equity issuance costs		**(786,372)**		(1,751)
		8,547,128		958,249
Net Increase (decrease) in Cash and Cash Equivalents		**4,737,906**		(40,244)
Cash and cash equivalents – Beginning of Year		**15,429**		55,673
Cash and cash equivalents – End of Year	**$**	**4,753,335**	$	15,429

Supplemental Schedule of Non-Cash Investing and Financing Transactions				
Stock-based compensation recorded in resource costs	**$**	**916,487**	$	50,158
Property expenditures included in accounts payable	**$**	**358,605**	$	25,482
Property expenditures included in due to related parties	**$**	**28,433**	$	-
Property expenditures included in prepaid expenses	**$**	**(97,531)**	$	-

- See Accompanying Notes -

Stikine Energy Corp.
(formerly Stikine Gold Corporation)
Schedule of Resource Property Costs
For the Years Ended
Canadian Funds

	February 28, 2011	February 28, 2010
BC Silica Project, BC, Canada		
Acquisition Costs		
Staking, land and claim costs	**$ 46,318**	$ 41,108
Deferred Exploration Costs		
Aircraft charter	**1,144,160**	361,487
Stock-based compensation	**916,487**	50,158
Pilot plant costs	**879,774**	-
Environmental	**554,906**	15,833
Geological and project management	**246,681**	113,280
Transportation	**131,650**	-
Accommodation and meals	**127,354**	28,705
Archaeological	**126,020**	-
Drilling	**90,725**	254,653
Equipment costs	**72,400**	-
Testing and assaying	**77,049**	65,309
Road	**62,055**	-
Travel	**54,174**	8,584
Sundry	**42,659**	5,565
Maps and reports	**15,525**	7,928
Engineering	**14,465**	9,188
Community relations	**13,921**	-
Communication	**8,492**	4,676
Future income taxes	**305,496**	16,719
Total Costs for the Year	**4,930,311**	983,193
Balance - Beginning of year	**983,193**	-
Balance - End of Year	**$ 5,913,504**	$ 983,193

1. Nature of Operations

Stikine Energy Corp. (the “Company”) was incorporated on July 10, 2000 as Withit Capital Corp., changed its name to Stikine Gold Corporation on June 18, 2002, and changed its name to Stikine Energy Corp. on August 3, 2010. The Company engages principally in the acquisition, exploration and development of resource properties in Canada.

2. Significant Accounting Policies

a) Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAAP”). All amounts are presented in Canadian dollars unless otherwise indicated.

b) Management's Estimates

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 dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from these estimates.

c) Financial instruments recognition, measurement, disclosure and presentation

Under CICA Handbook section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the balance sheet date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for trading financial assets are measured at fair value, with changes in fair value recognized in net earnings (loss). Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in other comprehensive income (“OCI”) until the instrument is derecognized or impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in net loss.

d) Cash and Cash Equivalents

Cash and cash equivalents are classified as held for trading and recorded at fair value with changes in fair value recorded in net income. The Company considers cash and cash equivalents to include amounts held in banks and investments with maturities at point of purchase of 90 days or less.

e) Option Agreements

From time to time, the Company may acquire or dispose of properties pursuant to the terms of option agreements. Due to the fact that options are exercisable entirely at the discretion of the optionee, option payments and receipts are recorded as resource property costs or recoveries when the payments are made or received.

2. Significant Accounting Policies - *Continued*

f) Resource Properties Costs

The Company is in the process of exploring and developing its resource properties and has not completed a bankable feasibility study to delineate ore reserves that are economically recoverable. Resource exploration and development costs are capitalized on an individual prospect basis until such time as the Company begins commercial production on the prospect or the prospect is sold, abandoned, allowed to lapse, or determined to be impaired.

Deferred exploration and development costs for properties placed into production are amortized on a unit-of-production basis, based on proven and probable reserves. Costs for prospects that are abandoned are written off at the time a decision is made not to continue exploration and development. Payments received by the Company when a property is optioned to another party are recorded as an offset to acquisition costs until those payments exceed expenditures, at which point they are recognized in net income.

The recoverability of the amount capitalized for the undeveloped resource properties is dependent upon the development of a commercially viable mining operation, confirmation of the Company's interest in the underlying mineral claims, the ability to farm out its resource properties, the ability to obtain the necessary financing to complete their development and future profitable production or proceeds from the disposition thereof.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration or development of such properties, these procedures do not guarantee a clear title. Property title may be subject to unregistered prior agreements and regulatory requirements. The Company is not aware of any disputed claims of title.

g) Amortization

The Company provides for amortization on its equipment at an annual rate of 45% for computer equipment and 20% for other office and field equipment on the declining balance method. One-half of the above rates are taken in the year of acquisition.

h) Impairment of Long-lived Assets

The Company assesses the possibility of impairment in the net carrying value of its long lived assets when events or circumstances indicate impairment may have occurred. Management calculates the estimated undiscounted future net cash flows relating to the asset or asset group using estimated future prices, proven and probable reserves and other mineral resources, and operating, capital and reclamation costs. When the carrying value of an asset exceeds the related undiscounted cash flows, the asset is written down to its estimated fair value, which is usually determined using discounted cash flows. Where future net cash flows cannot be estimated and other events or changes in circumstances suggest impairment, the asset is written down to its estimated fair value using management’s best estimates and comparative situations in the marketplace.

i) Asset Retirement Obligations

The Company follows the recommendations of CICA Handbook Section 3110, Asset Retirement Obligations. This section requires recognition of a legal liability for obligations relating to retirement of property, plant, and equipment, and arising from the acquisition, construction, development, or normal operation of those assets. Such asset retirement cost must be recognized at fair value, when a reasonable estimate of fair value can be estimated, in the period in which it is incurred, added to the carrying value of the asset, and amortized into income on the same basis as the underlying asset.

2. Significant Accounting Policies - *Continued*

Asset retirement obligations are adjusted to reflect the passage of time (accretion) calculated by applying the discount factor implicit in the initial fair value measurement to the beginning-of-period carrying amount of the obligation. The value of asset retirement obligations is evaluated on an annual basis or as new information becomes available on expected amounts and timing of cash flows required to discharge the liability. These changes are recorded in the period in which they are identified and when costs can be quantified reasonably. The Company has determined that it has no asset retirement obligations.

j) Income Taxes

Future income taxes are calculated using the asset and liability method. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the balance sheet are used to calculate future income tax liabilities or assets. Future income tax liabilities or assets are calculated using the substantively enacted tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. If realization of future income tax assets is not considered more likely than not, a valuation allowance is provided.

k) Foreign Exchange

The Company's foreign currency holdings are translated into Canadian dollars using the temporal method as follows: Monetary assets and liabilities at the exchange rate at period-end; Non-monetary assets and liabilities at historical exchange rates; Income and expense items at exchange rates prevailing at the transaction date except for depreciation and amortization which are recorded at historical rates. Exchange gains and losses are recognized in net income in the period in which they are incurred.

l) Share Capital

Share capital issued for non-monetary consideration is recorded at an amount based on fair market value. The proceeds from the issuance of units is allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values using the Black-Scholes pricing model.

m) Flow-Through Shares

Canadian tax legislation permits a company to issue securities referred to as flow-through shares whereby the Company assigns the tax deductions arising from the related resource expenditures to the shareholders. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized and share capital is reduced. If the Company has sufficient unused tax loss carry forwards or other future income tax assets to offset all or part of this future income tax liability and no future income tax assets have been previously recognized for these items, a portion of such unrecognized losses is recorded as income up to the amount of the future income tax liability that would otherwise be recognized.

n) Stock-Based Compensation

All stock-based awards are recognized based on the estimated fair value of the options using the Black-Scholes valuation model. 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. For directors, employees and non-employees, the fair value of the options is recognized over the vesting period of the options granted, and is capitalized or expensed as stock based compensation as appropriate with the offsetting entry to contributed surplus. If and when the stock options are ultimately exercised, the applicable amounts of contributed surplus are transferred to share capital.

2. Significant Accounting Policies - *Continued*

o) Agent Warrants

Agent's warrants, stock and unit options, and other equity instruments issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model

p) Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year.

The Company follows the treasury stock method in the calculation of diluted earnings per share. This method recognizes the proceeds that could be obtained upon exercise of any convertible securities only when such exercise would have a dilutive effect on earnings per share. It assumes that any proceeds from exercise would be used to purchase common shares at the average market price prevailing during the period. Diluted EPS excludes all dilutive potential shares if their effect is anti dilutive.

q) Mineral Exploration Tax Credits ("METC")

The Company recognizes METC amounts and applies those amounts against deferred exploration costs when the Company's application for tax credits is approved by Canada Revenue Agency.

3. Resource Property Costs

Details are as follows:

	Acquisition	Deferred Exploration & Development	**Total February 28, 2011**
British Columbia, Canada			
BC Silica Project	$ 87,426	$ 5,826,078	**$ 5,913,504**
	$ 87,426	$ 5,826,078	**$ 5,913,504**

	Acquisition	Deferred Exploration & Development	Total February 28, 2010
British Columbia, Canada			
BC Silica Project	$ 41,108	$ 942,085	**$** 983,193
	$ 41,108	$ 947,387	**$** 983,193

During the year ended February 28, 2010, the Company acquired a 100-per-cent interest in several British Columbia silica mineral claims.

4. Equipment

Details are as follows:

	Cost	Accumulated Amortization	**February 28, 2011 Net Book Value**
Computer/Office equipment	$ 45,485	$ 21,748	**$ 23,737**

	Cost	Accumulated Amortization	February 28, 2010 Net Book Value
Computer/Office equipment	$ 20,335	$ 16,983	**$ 3,352**

5. Share Capital

a) Details are as follows:

	Number		Amount
Authorized:			
Unlimited common shares without par value			
Balance as at February 29, 2009	42,892,917		7,430,137
Issued and fully paid			
Private Placement – prorated value of common shares issued	2,000,000		144,995
Exercise of warrants	5,000,000		750,000
Exercise of stock options	100,000		10,000
Fair value of warrants exercised	-		30,526
Fair value of options exercised	-		7,289
Share Issuance costs	-		(1,632)
Balance as at February 28, 2010	49,992,917	$	8,371,315
Issued and fully paid			
Private Placement – prorated value of common shares issued	15,500,000		3,044,743
Private Placement – prorated value of common shares issued	19,550,000		4,703,407
Exercise of warrants	2,000,000		300,000
Exercise of stock options	685,000		68,500
Fair value of warrants exercised	-		55,005
Fair value of options exercised	-		46,829
Future income taxes	-		(688,750)
Share issuance costs	-		(988,494)
Balance as at February 28, 2011	87,727,917	$	14,912,555

On December 30, 2010, the Company closed a private placement raising gross proceeds $5,865,000 through the issuance of 19,550,000 units at a price of $0.30 per unit. Each unit consisted of one common share and one half of a purchase warrant, each whole warrant entitling the holder to acquire one common share of the Company at an exercise price of $0.40 until December 30, 2011, and at an exercise price of $0.50 until December 30, 2012. In consideration for their services, the Company paid the agents a cash commission of $410,550 and issued the agents non-transferable common share purchase warrants to acquire up to 1,368,500 common shares until December 30, 2012, at an exercise price of $0.40. Other share issuance costs of $65,124 were incurred in relation to this transaction.

The prorated fair value of the warrants issued was calculated to be $1,161,593 on the grant date and is accounted for as a reduction to proceeds from the common shares with the offsetting entry to contributed surplus. The fair value of the agent warrants issued was calculated to be $269,191 and is accounted for as share issuance costs with the offsetting entry to contributed surplus. A total of $147,524 in issuance costs were attributable to the warrants which is accounted for as a reduction to share issuance costs with the offsetting entry to contributed surplus.

5. Share Capital *- Continued*

On June 17, 2010, the Company completed a brokered private placement of flow-through common ("FT") shares and units at a price of $0.20 for total gross proceeds of $3,100,000. 13,775,000 FT shares and 1,725,000 units were issued, each unit consisting of one common share and one half of one common share purchase warrant. Each full warrant entitles the holder to acquire an additional common share until December 17, 2011 at price of $0.25. In the event that the Company's common shares close at a price greater than $0.50 cents for 20 consecutive trading days, the Company may accelerate the expiry date of the warrants by giving notice to the warrant holders that the warrants will expire on the 30th day after the date of notice. The agents of the financing received cash commissions of $217,000 and 1,085,000 agent warrants, each exercisable until December 17, 2011 at a price of $0.25. Other share issuance costs of $94,180 were incurred in relation to this transaction.

The prorated fair value of the warrants issued was calculated to be $55,257 on the grant date and is accounted for as a reduction to proceeds from the common shares with the offsetting entry to contributed surplus. The fair value of the agent warrants issued was calculated to be $87,064 and is accounted for as share issuance costs with the offsetting entry to contributed surplus. A total of $7,090 in issuance costs were attributable to the warrants which is accounted for as a reduction to share issuance costs with the offsetting entry to contributed surplus.

The total fair value of warrants and agent warrants issued during the year ended February 28, 2011 was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	1.70-1.76%
Expected dividend yield	Nil
Expected stock price volatility	62.9-95.1%
Average expected life	1-2 years

Flow-through securities are securities issued by a company that incurs certain resource expenditures and renounces them for tax purposes thereby allowing the expenditures to flow-through to the subscriber who purchased the securities. Subscribers may in turn claim the expenditure as a deduction on their personal or corporate tax returns. The $2,755,000 raised by the Company through the sale of the FT shares was renounced, for income tax purposes effective December 31, 2010.

During the year ended February 28, 2010, the Company completed a non-brokered private placement for proceeds of $200,000. Two million units were issued at a price of $0.10 per unit, each consisting of one common share and one common share purchase warrant. Each warrant entitles the holder to acquire an additional common share until August 13, 2010 at price of $0.15. A director of the Company purchased a total of 120,000 units.

The prorated fair value of the warrants issued was calculated to be $55,005 on the grant date and is accounted for as a reduction to proceeds from the common shares with the offsetting entry to contributed surplus. The total fair value of warrants was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	1.21%
Expected dividend yield	Nil
Expected stock price volatility	111%
Average expected life	0.88 years

5. Share Capital - *Continued*

b) Stock Options

The Company has established a share purchase option plan whereby the board of directors may, from time to time, grant options to directors, officers, employees or consultants. The maximum number of shares issuable under the stock option plan shall not exceed 10% of the issued and outstanding shares. Options granted must be exercised no later than five years from date of grant or such lesser period as determined by the board of directors. The exercise price of an option is not less than the closing price on the TSX Venture Exchange on the last trading day preceding the grant date. Options vest on the grant date unless determined otherwise by the board of directors.

At February 28, 2011 there were 8,610,000 options outstanding at a weighted average exercise price of $0.34. A summary of the changes during the year is as follows:

Number at February 28, 2010	Granted	Exercised	Expired or Cancelled	**Number at February 28, 2011**	Exercise Price Per Share	Expiry
490,000	-	-	(490,000)	**-**	$0.55	March 4, 2010
625,000	-	-	(125,000)	**500,000**	$0.30	Feb. 20, 2012
1,700,000	-	(550,000)	-	**1,150,000**	$0.10	June 18, 2013
1,195,000	-	(135,000)	-	**1,060,000**	$0.10	June 10, 2014
-	2,100,000	-	-	**2,100,000**	$0.30	May 3, 2015
-	3,800,000	-	-	**3,800,000**	$0.50	Jan. 17, 2016
4,010,000	5,900,000	(685,000)	(615,000)	**8,610,000**	$0.34	

On January 17, 2011, the Company granted 3,800,000 incentive stock options exercisable at a price of $0.50 per share for a period of five years. The total fair value of the options granted was calculated to be $1,248,189 on the grant date. Of this amount, $566,612 was expensed and $681,577 was capitalized to mineral properties. On May 3, 2010, the Company granted 2,100,000 incentive stock options exercisable at a price of $0.30 per share for a period of five years. The total fair value of the options granted was calculated to be $355,540 on the grant date. Of this amount, $120,630 was expensed and $234,910 was capitalized to mineral properties. The offsetting entries are to contributed surplus.

The fair value of stock options used to calculate the compensation expense during the year was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	2.33-2.69%
Expected dividend yield	Nil
Expected stock price volatility	89%
Average expected option life	4.0-4.2 years

The weighted average exercise price of options granted during the year was $0.43. Also during the year ended February 28, 2011, a total of 615,000 outstanding stock options were cancelled or expired unexercised at a weighted average exercise price of $0.50. A total of 685,000 stock options were exercised at $0.10 during the year for proceeds of $68,500. The fair value of $46,829 relating to the exercise of stock options has been transferred to share capital from contributed surplus.

5. Share Capital - *Continued*

At February 28, 2010 there were 4,010,000 options outstanding at a weighted average exercise price of $0.19. A summary of the changes during the year ended February 28, 2010 is as follows:

Number at February 28, 2009	Granted	Exercised	Cancelled	**Number at February 28, 2010**	Exercise Price Per Share	Expiry
490,000	-	-	-	**490,000**	$0.55	March 4, 2010
100,000	-	-	(100,000)	**-**	$0.30	June 1, 2011
700,000	-	-	(75,000)	**625,000**	$0.30	Feb. 20, 2012
1,800,000	-	(100,000)	-	**1,700,000**	$0.10	June 18, 2013
-	1,195,000	-	-	**1,195,000**	$0.10	June 10, 2014
3,090,000	1,195,000	(100,000)	(175,000)	**4,010,000**	$0.19	

During the year ended February 28, 2010, the Company granted 1,195,000 incentive stock options exercisable at a price of $0.10 per share for a period of five years. The total fair value of the options granted was calculated to be $59,641 on the grant date. Of this amount, $9,483 was expensed and $50,158 was capitalized to mineral properties. The offsetting entries are to contributed surplus. The fair value of stock options used to calculate the compensation expense was estimated using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

Average risk-free interest rate	2.37%
Expected dividend yield	Nil
Expected stock price volatility	82%
Average expected option life	4.2 years

During the year ended February 28, 2010, a total of 175,000 outstanding stock options were cancelled upon termination of consulting agreements at a weighted average exercise price of $0.30 and a total of 100,000 stock options were exercised at a price of $0.10 for proceeds of $10,000. The fair value of $7,289 relating to this exercise of stock options has been transferred to share capital from contributed surplus.

c) Warrants

During the year ended February 28, 2011, 2,000,000 warrants were exercised for proceeds of $300,000. The fair value of $55,005 relating to these warrants has been transferred to share capital from contributed surplus. A summary of the Company's warrants outstanding at February 28, 2011 and the changes for the year are as follows:

Number Outstanding February 28, 2010	Issued	Exercised	**Number Outstanding February 28, 2011**	Exercise Price	Expiry Date
2,000,000	-	(2,000,000)	**-**	$0.15	August 13, 2010
-	1,085,000		**1,085,000**	$0.25	December 17, 2011
-	862,500	-	**862,500**	$0.25	(1)December 17, 2011
-	9,775,000	-	**9,775,000**	$0.40	(2)December 30, 2012
-	1,368,500	-	**1,368,500**	$0.40	December 30, 2012
2,000,000	13,091,000	(2,000,000)	**13,091,000**	$0.38	

1) If the closing price of the Company's common shares is greater than $0.50 for a period of 20 consecutive trading days, the Company may accelerate the expiry date of these warrants by giving notice to the warrant holders, and in such case the warrants will expire on the 30th day after the date on which such notice is given.

2) Any unexercised warrants outstanding after December 30, 2011 will be exercisable at a price of $0.50 until December 30, 2012.

5. Share Capital - *Continued*

During the year ended February 28, 2010, 5,000,000 warrants were exercised for proceeds of $750,000. The fair value of $30,526 relating to these warrants has been transferred to share capital from contributed surplus. A summary of the Company's warrants outstanding at February 28, 2010 and the changes for the fiscal year are as follows:

Number Outstanding February 28, 2009	Issued	Exercised	**Number Outstanding February 28, 2010**	Exercise Price	Expiry Date
5,000,000	-	(5,000,000)	**-**	$0.15	October 14, 2009
-	2,000,000	-	**2,000,000**	$0.15	August 13, 2010
5,000,000	2,000,000	(5,000,000)	**2,000,000**	$0.15	

d) **Contributed Surplus**

Details are as follows:

		February 28, 2011		February 28, 2010
Balance – Beginning of Year	**$**	**1,048,537**	$	971,825
Private placement proceeds allocated to warrants		**1,216,850**		55,005
Issuance costs attributed to warrants		**(154,614)**		(481)
Issuance costs for warrants exercised		**481**		362
Fair value of warrants exercised		**(55,005)**		(30,526)
Fair value of Agent's warrants issued		**356,255**		-
Fair value of options exercised		**(46,829)**		(7,289)
Fair value of stock-based compensation		**1,603,729**		59,641
Balance – End of Year	**$**	**3,969,404**	$	1,048,537

6. Reclamation Bonds

At February 28, 2011, reclamation bonds totalling $16,000 (2010 - $7,500) were held with the British Columbia Ministry of Energy, Mines and Petroleum Resources as summarized below:

		February 28, 2011		February 28, 2010
Grant Gold Project	$	**4,000**	$	4,000
BC Silica claims		**12,000**		3,500
Total	$	**16,000**	$	7,500

7. Related Party Transactions

Except as noted elsewhere in these financial statements, related party transactions are initially recorded at fair value and subsequently measured at amortized cost using the effective interest method as follows:

a) During the year ended February 28, 2011, consulting fees of $62,400 (2010 - $23,200) were paid or accrued to the Company's President and Chief Executive Officer. Services provided include general corporate, exploration and acquisition strategy, planning and management work, contract negotiations, and investment presentations.

b) During the year ended February 28, 2011, consulting fees of $25,200 (2010 - $14,700) were paid or accrued to the Company's Secretary and Chief Financial Officer. Services provided include corporate finance initiatives, fund raising, contract negotiations, accounting, office and general management.

c) During the year ended February 28, 2010, contract fees of $88,350 (2010 - $24,000) were paid or accrued to a company controlled by a former director. These amounts were included in resource costs.

d) During the year ended February 28, 2011, rent costs of $43,703 (2010 - $36,687) were paid or accrued to a company with directors of the Company in common.

e) At February 28, 2011 current liabilities include $50,435 (2010 - $30,478) payable to related parties.

These transactions were incurred in the ordinary course of business, are non-interest bearing, and without specific repayment terms. The transactions are measured at the exchange amount, which is the fair value consideration established and agree to by the related parties.

8. Income Taxes

a) Income tax expense differs from the amount that would result from applying the Canadian federal and provincial income tax rates to earnings before income taxes. These differences result from the following items:

For the years ended:		**February 28, 2011**		February 28, 2010
Earnings (Loss) before income taxes	**$**	**(945,789)**	$	(157,287)
Canadian federal and provincial income tax rates		**28.18%**		29.76%
Income tax expense (recovery)		**(266,523)**		(46,809)
Increase (decrease) due to:				
Non-deductible expenses for tax purposes		**193,665**		19,275
Share issuance costs		**(196,593)**		(438)
Difference in long term tax rates		**9,007**		4,404
Expiry of losses and others		**162,543**		13,211
Changes in valuation allowance		**(896,345)**		(6,362)
Income tax expense (recovery)	**$**	**(994,246)**	$	(16,719)

8. Income Taxes - *Continued*

b) The significant components of future income tax assets and liabilities are as follows:

As at:		**February 28, 2011**		February 28, 2010
Future income tax asset				
Non-capital loss carry forwards	**$**	**473,732**	$	453,335
Shares issue costs		**158,255**		5,226
Equipment		**5,437**		4,246
Resource property costs		**-**		1,048,475
Future income tax assets		**637,424**		1,511,282
Less: Valuation allowance		**(598,219)**		(1,494,563)
Total future income tax asset	**$**	**39,205**	$	16,719
Future income tax liability				
Mineral properties	**$**	**39,205**	$	16,719
Total future income tax liability	**$**	**39,205**	$	16,719
Net future income tax liability	**$**	**-**	$	-

c) At February 28, 2011, the Company has non-capital losses of $1,894,926 that may be available to offset future taxable income. These loss carry-forwards expire as follows:

		Amount
2015	$	332,157
2026		206,730
2027		308,060
2028		234,950
2029		175,202
2030		210,789
2031		427,038
	$	1,894,926

The Company has cumulative resource expenditures of approximately $5,757,000 that may be carried forward indefinitely and used to reduce taxable income in future years.

9. Financial Instruments

a) **Fair Values**

The Company has designated its financial instruments as follows:

- Cash and cash equivalents are classified as *"Held-For-Trading"* and recorded at fair value with changes in fair value recorded in net income;
- Reclamation bond amounts are classified as *"Available-for-Sale"* and recorded at fair value with temporary changes in fair value recorded in other comprehensive income;
- Receivables are classified as *"Loans and Receivables".* These financial assets are recorded at values that approximate their amortized cost using the effective interest method; and
- Accounts payable, accrued liabilities, and due to related parties are classified as *"Other Financial Liabilities"*. These financial liabilities are initially recorded at fair value and subsequently measured at amortized cost using the effective interest method.

9. Financial Instruments - *Continued*

There are three levels of fair value hierarchy that prioritize the inputs to valuation techniques used to measure fair value, with level 1 inputs having the highest priority. The levels and the valuation techniques used to value the Company's financial assets and liabilities are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 – Unobservable (supported by little or no market activity) prices.

The carrying amounts of financial instruments approximate fair value as of February 28, 2011 as shown below:

	Fair Value Hierarchy Level		Carrying and Fair Values
Financial Assets			
Cash and cash equivalents	**2**	**$**	**4,753,335**
Reclamation bonds	**2**	**$**	**16,000**
Accrued interest receivable	**N/A**	**$**	**8,498**
Financial Liabilities			
Accounts payable and accrued liabilities	**N/A**	**$**	**420,716**
Due to related parties	**N/A**	**$**	**50,435**

The fair values of the Company's interest receivable, accounts payable and accrued liabilities and due to related parties are estimated to approximate their carrying values due to the immediate or short-term maturity of theses financial instruments.

b) **Capital Risk Management**

The Company's primary objectives when managing capital are to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders, and to have sufficient funds on hand for business opportunities as they arise. The Company considers the components of shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue equity, sell assets, or return capital to shareholders as well as issue or repay debt. The Company is not subject to externally-imposed capital requirements. The Company invests its cash in short-term interest-bearing investments, having maturity dates of three months or less from the date of acquisition, that are readily convertible to known amounts of cash.

There were no changes to the Company's approach to capital management during the year ended February 28, 2011. As at February 28, 2011, the Company had no foreign currency hedges or commodity hedges in place, and consequently, hedge accounting is not used.

9. Financial Instruments – *Continued*

c) Financial Risk Management

The Company is exposed to potential loss from various risks including credit risk, interest rate risk, currency risk, liquidity risk, market risk and commodity price risk.

i) Credit Risk

Management has considered payment history and other factors and estimated that no allowances are required to allow for potential credit losses, as the risk of non-performance is remote. The Company maintains its cash and cash equivalents in Canadian Chartered Banks. The Company's maximum exposure to credit risk is the carrying value of its financial assets.

ii) Foreign Exchange Risk

The Company's operations are exclusively conducted in Canada and the operating results and the financial position of the Company are reported in Canadian dollars. The Company is not subject to foreign exchange risk at February 28, 2011.

iii) Interest Rate Risk

The Company is exposed to interest rate risk on its cash and cash equivalents. Generally, the Company's interest income will be reduced during sustained periods of lower interest rates as higher yielding cash equivalents and short-term investments mature and the proceeds are invested at lower interest rates. A 1% change in interest rates would have an insignificant impact on the Company's financial statements or operating results.

iv) Liquidity Risk

The Company is exposed to liquidity risk. The Company seeks to manage liquidity risk by maintaining sufficient cash and short-term investment balances for settlement of its obligations. Liquidity requirements are managed based on expected cash flow to ensure there is sufficient capital in order to meet short-term obligations. At February 28, 2011, the liquidity risk of the Company was considered high due to the general uncertainty in the world economy.

v) Pledged Financial Assets

The Corporation has financial assets that are pledged for potential reclamation obligations that may arise. Reclamation deposits are maintained until the Company is able to demonstrate that it has satisfactorily reclaimed its various exploration properties.

vi) Market and Commodity Price Risk

The Company is exposed to market risk and commodity price risk. Declines in the market price of commodities can affect the Company's ability to raise capital to fund its ongoing exploration and development activities.

10. Segmented Information

The Company's principal activity is the exploration and development of mineral properties with these properties located in Canada.