

PALLADON VENTURES LTD.

A Development Stage Company

REPORT AND FINANCIAL STATEMENTS

February 28, 2011 and 2010



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INDEPENDENT AUDITOR'S REPORT

To the shareholders of Palladon Ventures Ltd.

We have audited the accompanying financial statements of Palladon Ventures Ltd., 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 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 Company'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 Company'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 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 Palladon Ventures Ltd. as at February 28, 2011 and 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 qualifying our opinion, we draw attention to Note 1 in the financial statements, which indicates that the Company has a working capital deficit of \$162,233, an accumulated deficit of \$91,217,797, may incur further losses in the management of its investment in CML, and is dependent upon its ability to raise financing and to realize value from its investment in CML to fund operations going forward. These conditions, as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

(signed) "BDO Canada LLP"

Chartered Accountants
June 10, 2011

PALLADON VENTURES LTD.
BALANCE SHEETS

February 28, 2011 and February 28, 2010

	<u>2011</u>	<u>2010</u>
Cash	\$590,907	\$185,821
GST / HST recoverable	8,742	1,157
Marketable securities	45,000	58,500
Total Current Assets	<u>644,649</u>	<u>245,478</u>
Investment in CML Holdings, Inc. - Note 4	14,776,560	8,800,000
Reclamation deposits - Note 3	19,855	34,726
Total Assets	<u><u>15,441,064</u></u>	<u><u>9,080,204</u></u>
Accounts payable and accrued liabilities - Note 9	157,648	65,174
Due to related parties - Note 9	649,234	649,234
Total Current Liabilities	<u>806,882</u>	<u>714,408</u>
Total Liabilities	<u><u>806,882</u></u>	<u><u>714,408</u></u>
Share capital - Note 7	102,780,596	95,730,142
Contributed surplus - Note 7	3,071,383	3,071,383
Deficit	(91,217,797)	(90,435,729)
Total Shareholders' Equity	<u>14,634,182</u>	<u>8,365,796</u>
Total Liabilities and Shareholders' Equity	<u><u>\$15,441,064</u></u>	<u><u>\$9,080,204</u></u>

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

APPROVED BY:

"John W. Cutler"

John W. Cutler, *Director*

"Leonard J. Sojka"

Leonard J. Sojka, *CFO*

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
STATEMENTS OF OPERATIONS AND DEFICIT
for the years ended February 28, 2011 and February 28, 2010

	2011	2010
General and Administrative Expenses:		
Consulting - Note 9	\$154,518	\$433,504
Amortization	-	998,103
Interest on long-term debt	-	5,496,254
Office and administration	44,111	495,912
Professional fees	162,981	359,139
Rent	-	164,874
Salaries, benefits and directors' fees - Note 9	198,109	1,091,393
Shareholder communications	17,836	27,003
Transfer agent and filing fees	71,176	27,655
Travel and promotion	7,940	115,023
Loss before other	(656,671)	(9,208,860)
Other:		
Unrealized gain (loss) on marketable securities	(13,500)	31,500
Gain on debt settlement - Note 4	-	15,475,579
Write-off other assets	-	(2,022,754)
Interest and other income	2,361	61,697
Gain (loss) on foreign exchange	(114,258)	8,259,569
Net income (loss) and comprehensive income (loss) for the year	(782,068)	12,596,731
Deficit, beginning of the year	(90,435,729)	(103,032,460)
Deficit, end of the year	(\$91,217,797)	(\$90,435,729)
Income (loss) per share	(\$0.04)	\$0.75
Weighted average number of shares outstanding	19,270,308	16,896,363

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
STATEMENTS OF CASH FLOWS
for the years ended February 28, 2011 and February 28, 2010

	2011	2010
Operating Activities:		
Net income (loss) for the year	(\$782,068)	\$12,596,731
Items not involving cash:		
Amortization	-	998,103
Gain on debt settlement	-	(15,475,579)
Unrealized (gain) loss on marketable securities	13,500	(31,500)
Unrealized foreign exchange (gain) loss	11,481	(9,191,459)
Accrued interest	-	5,289,474
Write-off of other assets / liabilities	-	2,022,754
	(757,087)	(3,791,476)
Changes in non-cash working capital items:		
Amounts receivable	-	59,219
GST / HST recoverable	(7,585)	46,196
Accounts payable and accrued liabilities	92,474	(650,884)
Cash (used in) operating activities	(672,198)	(4,336,945)
Investing activities:		
Investment in CML Holdings, Inc.	(5,976,560)	-
Reclamation bonds	14,871	(76,841)
Mineral property costs, net of recoveries	-	(3,199,787)
Cash (used in) investing activities	(5,961,689)	(3,276,628)
Financing activities:		
Loans repaid	-	(206,780)
Issuance of shares for cash, net of share issuance costs	7,050,454	-
Cash (used in) provided from financing activities	7,050,454	(206,780)
Foreign exchange on cash held in US\$	(11,481)	(8,420)
Increase (decrease) in cash during the year	405,086	(7,828,773)
Cash, beginning of the year	185,821	8,014,594
Cash, end of the year	\$590,907	\$185,821
Supplemental disclosure of cash flow information:		
Cash paid for interest	-	\$499,123

Non-cash transactions - Note 10

SEE ACCOMPANYING NOTES

PALLADON VENTURES LTD.
A Development Stage Company
NOTES TO THE FINANCIAL STATEMENTS
February 28, 2011 and February 28, 2010

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

Palladon Ventures Ltd. (“Palladon” or the “Company”) was incorporated on August 25, 1980 under the Company Act of British Columbia. The Company is publicly listed on the TSX Venture Exchange and on the Frankfurt exchange.

Until March 15, 2010, Palladon owned 100% of Palladon Iron Corporation (“PIC”). On that date Palladon and Luxor Capital Partners, LP (“Luxor”) entered into a Satisfaction and Settlement Agreement whereby Palladon transferred ownership of 78.26% of PIC to Luxor in exchange for the full discharge of all liabilities due to Luxor and waiver of all intercompany advances due by PIC to Palladon. Because of the de minimis business activity at PIC subsequent to Palladon’s fiscal year ended February 28, 2010, the Satisfaction and Settlement Agreement was reflected in the audited annual financial statements and MD&A as of the February 28, 2010 year end. The effect of the Satisfaction and Settlement Agreement was for Palladon to deconsolidate the PIC balance sheet and to instead reflect an investment in Palladon Iron Corporation, which has now been renamed CML Holdings, Inc. (“CML”). The operations of PIC for the year ended February 28, 2010 were included in the consolidated statements of operations and deficit.

Palladon’s primary business activity is to manage its investment in CML, a private company, which is recorded at fair value on initial recognition, and recognized at cost subsequently.

The financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for the next fiscal year.

Realization values may be substantially different from carrying values as shown, and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern.

At February 28, 2011, the Company had a working capital deficit of \$162 thousand, has not yet achieved profitable operations and has accumulated a deficit of \$91 million since inception. Palladon may incur further losses in the management of its investment in CML, which casts substantial doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue as a going concern is dependent upon its ability to raise financing, to fund operations going forward, and to realize value from its investment in CML.

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and are stated in Canadian dollars. Because a precise determination of many assets and liabilities is dependent on future events, the preparation of financial statements for a period necessarily involves the use of estimates that have been made using careful judgment. Actual results may differ from these estimates. The financial statements have, in management’s opinion, been properly prepared within reasonable limits of materiality and within the framework of the significant accounting policies summarized below.

Note 2 **Significant Accounting Policies**

a) Principles of Consolidation

The fiscal 2011 statements of operations and deficit include only the accounts of the Company. However, the operating activities of former U.S. subsidiaries PIC and PIC Railroad Inc. ("PICR") were included in the fiscal 2010 consolidated statements of operations and deficit. Prior to the Satisfaction and Settlement Agreement, the operations of the Company and PIC were inextricably intertwined, because the previously consolidated companies were effectively operated as one company.

b) Basic and Diluted Income (Loss) Per Share

Basic income (loss) per share is computed by dividing the income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted income (loss) per share would reflect the dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method. Common equivalent shares (consisting of shares issuable on the exercise of common stock options and warrants) totalling 15,000 as of February 28, 2011 (February 28, 2010: 15,000) were not included in the computation of diluted income (loss) per share because the effect was anti-dilutive in 2011 and 2010.

c) Income Taxes

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

d) Foreign Currency Translation

Monetary items denominated in a foreign currency are translated into Canadian dollars at exchange rates prevailing at the balance sheet date and non-monetary items are translated at exchange rates prevailing when the assets were acquired or obligations incurred. Foreign currency denominated revenue and expense items are translated at exchange rates prevailing at the transaction date. Gains or losses arising from the translations are included in operations.

e) Stock-based Compensation

The Company accounts for all grants of options to employees and directors in accordance with the fair value method for accounting for stock-based compensation. Compensation expense for employees and directors is expensed as incurred. Upon exercise of share

Note 2 **Significant Accounting Policies** – (cont'd)

purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital.

f) Asset Retirement Obligations

The fair value of obligations associated with the retirement of tangible long-lived assets is recorded in the period the asset is put into use, with a corresponding increase to the carrying amount of the related asset. The obligations recognized are statutory, contractual or legal obligations. The liability is accreted over time for changes in the fair value of the liability through charges to accretion, which will be included in depletion, depreciation and accretion expense. The costs capitalized to the related assets are amortized in a manner consistent with the depletion and depreciation of the related asset. At February 28, 2011 and 2010, the Company did not have any asset retirement obligations.

g) Impairment of Long-lived Assets

Canadian generally accepted accounting principles require that long-lived assets and intangibles to be held and used by the Company be reviewed for possible impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If changes in circumstances indicate that the carrying amount of an asset that an entity expects to hold and use may not be recoverable, future cash flows expected to result from the use of the asset and its disposition must be estimated. If the undiscounted value of the future cash flows is less than the carrying amount of the asset, impairment is recognized. Except as provided, management believes there has been no impairment of the Company's long-term assets at February 28, 2011 and 2010.

h) Comprehensive Income

Comprehensive income includes both net income (loss) and other comprehensive income ("OCI"). OCI is the change in shareholders' equity from non-owner sources which is not included in the calculation of net income (loss) until realized. Cumulative changes in OCI are included in Accumulated Other Comprehensive Income ("AOCI"), which is presented as a category of shareholders' equity on the balance sheet. The Company had no OCI transactions during the years ended February 28, 2011 or February 28, 2010 and neither opening nor closing balances for AOCI.

i) Financial Instruments Recognition, Measurement, Disclosure and Presentation

All financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured on the trade date at fair value upon initial recognition. Subsequent measurement depends on the initial classification of the instrument. Held-for-trading financial assets are measured at fair value, with changes in fair value recognized in net income (loss).

Note 2 **Significant Accounting Policies** – (cont'd)

Available-for-sale financial instruments are measured at fair value, with changes in fair value recorded in OCI until the instrument is derecognized or impaired. Available for sale investments in private companies, are initially recognized at fair value and subsequently at cost. Investments held at cost are impaired when there is objective evidence that a decline in the recoverable amount below cost is other than temporary. The amount of any impairment loss is the difference between the carrying amount of the investment and its fair value. Such impairment losses are not reversed until the investment is sold. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the balance sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in the statement of operations. Transaction costs on the acquisition of financial assets and liabilities that are classified as other than held-for-trading are expensed.

The Company has made the following designations of its financial instruments: cash and marketable securities as held-for trading; Investment in CML Holdings, Inc. as available-for-sale; accounts payable and accrued liabilities and due to related parties as other financial liabilities.

In 2009, the Canadian Institute of Chartered Accountants (“CICA”) amended Section 3862, “Amendment to Financial Instruments – Disclosures” to require disclosures about the inputs to fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company categorizes its financial instruments which are measured at fair value as level 1, except for its investment in CML which is at level 3.

j) **Business Combinations, Consolidated Financial Statements, and Non-controlling Interests**

CICA Handbook Section 1582 establishes standards for the accounting for a business combination, and states that all assets and liabilities of an acquired business will be recorded at fair value. Obligations for contingent consideration and contingencies will also be recorded at fair value at the acquisition date. Acquisition-related costs will be expensed as incurred and restructuring charges will be expensed in the periods after the acquisition date.

Note 2 **Significant Accounting Policies** – (cont'd)

This standard states that changes in a parent's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions. Under the policy, the non-controlling interest is presented as a component of shareholders' equity.

k) **Future Accounting Pronouncements**

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. The transition date of January 1, 2011 will require the restatement for comparative purposes of amounts reported by the Company for the year ended February 28, 2011. The Company's first interim and annual financial reporting period under IFRS will be for the year beginning on March 1, 2011.

Note 3 **Reclamation Deposits**

At February 28, 2011, total security deposits held by third parties were \$20 thousand (February 28, 2010: \$35 thousand).

Note 4 **Investment in CML Holdings, Inc.**

The \$14.8 million Investment in CML Holdings, Inc. as of February 28, 2011 (February 28, 2010: \$8.8 million) was initially recorded at fair value and subsequently at cost, and reflects Palladon's participation in two CML capital calls during the twelve months ended February 28, 2011.

Effective February 28, 2010, as disclosed in Note 1, the Company entered into a Satisfaction and Settlement Agreement pursuant to its default on the loans payable, whereby it transferred 78.26% of its interest in PIC to Luxor in full satisfaction of all debt owed to Luxor. As a result, the Company disposed of and derecognized the net assets of PIC, and recorded its remaining interest in PIC at its fair value at the date of derecognition, as follows:

Note 4 **Investment in CML Holdings, Inc.** – (cont'd)

Settlement of loans payable	\$42,457,716
Investment in the fair value of PIC	<u>7,311,241</u>
	<u>49,768,957</u>
Less net assets of PIC at carrying value:	
Current assets, including cash of \$20,984	89,368
Property and equipment	3,985,552
Mineral properties and related equipment	29,377,133
Other assets	876,455
Liabilities	<u>(35,130)</u>
Net assets of PIC	<u>34,293,378</u>
Gain on disposal	<u><u>\$15,475,579</u></u>

During fiscal 2011, the Company subscribed for an additional 192,580 shares of CML through two private placements, at subscription prices of US\$23.26 (18,700 shares) and US\$31.96 (173,880 shares), respectively. As of February 28, 2011, the investment in CML Holdings, Inc. is as follows:

	Number of	
	Shares	Amount
Balance, beginning of the year	374,000	\$8,800,000
Subscriptions	192,580	5,976,560
Balance, end of the year	<u>566,580</u>	<u>\$14,776,560</u>

Note 5 **Management of Capital**

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

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

The capital of the Company consists of shareholders' equity. The Board of Directors does not establish quantitative return on capital for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company is not subject to any externally imposed capital requirements. The Company relies on capital markets to support continued growth. There has been no change in the Company's approach to capital management during the year ended February 28, 2011.

Note 6 **Financial Instruments**

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

a) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company's cash is exposed to credit risk. The Company reduces its credit risk on cash by placing this instrument with institutions of high credit worthiness. As of the end of the period the Company is not exposed to any significant credit risk.

b) Liquidity Risk

The Company's exposure to liquidity risk is dependent on purchasing commitments and obligations, and the raising of funds to meet commitments and sustain operations. The Company is a development stage company and is reliant on external fundraising to support its operations. The Company manages liquidity risk by continuously monitoring actual and projected cash flows. The majority of the Company's accounts payable and accrued liabilities have maturities of less than three months.

c) Market Risk

The Company has market risk attributable to its marketable securities held for trading. The investments consist of shares of public companies which were received as partial consideration in an option agreement. The investments held for trading are carried on the balance sheet at the fair market value of the investments, with the change in fair value being recognized as unrealized gain (loss) on marketable securities in the statement of operations and deficit. Based on management's knowledge and experience of the financial markets, the Company does not believe it is subject to significant market risk as a result of holding these marketable securities. The Company is exposed to interest rate risk on its cash and cash equivalents. The Company estimates that a fluctuation in interest rates of 1% would affect the net loss by approximately \$6,000.

d) Foreign Exchange

Foreign exchange risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in foreign exchange rate. As at February 28, 2011, the Company is exposed to US dollars that are subject to fluctuations as a result of exchange rate variations to the extent that transactions are made in this currency. The Company considers this risk to be insignificant and therefore does not hedge its foreign exchange risk. Included in cash is \$472,112 denominated in US dollars. The Company estimates that a fluctuation in the Canada/USA foreign exchange rate of \$0.01 would affect the net loss by approximately \$5,000.

Note 7 **Share Capital**

Shares Authorized: Unlimited common shares without par value.

		Number of Shares	Share Capital	Contributed Surplus
Balance February 28, 2010 and 2009		16,896,363	\$95,730,142	\$3,071,383
Private placement, at	\$0.5654	2,000,000	1,130,800	-
Private placement, at	\$0.6965	8,499,143	5,919,654	-
Balance February 28, 2011		<u>27,395,506</u>	<u>\$102,780,596</u>	<u>\$3,071,383</u>

During fiscal 2011, the Company's shareholders approved special resolutions consolidating the Company's shares on the basis of one new share for every ten old shares. The consolidation transaction was approved by the TSX Venture Exchange. The current year and comparative figures for the weighted average number of outstanding common shares and basic and diluted loss per share have been adjusted to reflect the effect of a share consolidation.

Commitments:

a) Share Purchase Options:

The Company may grant share purchase options to directors, officers or employees to acquire shares of the Company. Unless noted otherwise, the share purchase options vest when granted. Share purchase option activity for the years February 28, 2011 and 2010 is summarized as follows:

	Year ended February 28, 2011		Year ended February 28, 2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding and exercisable beginning of year	15,000	\$4.00	103,000	\$5.50
Cancelled	-	-	(88,000)	5.80
Exercised	-	-	-	-
Outstanding end of year	<u>15,000</u>	<u>\$4.00</u>	<u>15,000</u>	<u>\$4.00</u>

Each of the 15,000 share purchase options outstanding entitles the holder to purchase one common share at \$4.00 per share until expiration on October 31, 2012.

Note 7 **Share Capital** – (cont'd)

b) **Share Purchase Warrants:**

Each warrant entitles the holder to purchase one common share. Activity for the years ended February 28, 2011 and 2010 is as follows:

	Year ended February 28, 2011		Year ended February 28, 2010	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding and exercisable				
beginning of year	-	-	3,231,182	\$8.40
Expired	-	-	(3,231,182)	8.40
Exercised	-	-	-	-
Outstanding end of year	-	-	-	-

Note 8 **Income Taxes**

The Company has accumulated non-capital losses of approximately \$21.6 million in Canada, which are available to carry forward and offset future years' taxable income. The non-capital losses expire in 2031. A reconciliation of the income tax provision computed at statutory rates to the reported tax provision is as follows:

	2011	2010
Statutory tax rate	<u>28.17%</u>	<u>29.75%</u>
Income (loss) before income taxes	<u>\$ (782,068)</u>	<u>\$ 12,596,731</u>
Expected income tax loss (recovery)	\$ (220,000)	\$ 3,748,000
Increase (decrease) in income tax loss (recovery) resulting from:		
Change in statutory rates	25,000	62,000
Impact of Luxor transaction	(4,988,000)	1,548,000
Non-taxable portion of capital gains	13,000	(1,032,000)
Other	166,000	(4,000)
Change in valuation allowance for future income tax assets	<u>5,004,000</u>	<u>(4,322,000)</u>
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>

Note 8 **Income Taxes** – (cont'd)

The significant components of the Company's future income tax assets, after applying enacted corporation income tax rates of 25% (2010: 25%), are as follows:

	<u>2011</u>	<u>2010</u>
Non-capital loss carryforward	\$ 5,411,000	\$ 2,130,000
Capital losses	5,547,000	5,021,000
Long-term investments	775,000	(610,000)
Undeducted share of issue costs	437,000	633,000
Other	1,000	(7,000)
Less: valuation allowance	<u>(12,171,000)</u>	<u>(7,167,000)</u>
Income tax recovery	<u>\$ -</u>	<u>\$ -</u>

The Company has recorded a valuation allowance against its future income tax assets, based on the extent to which it is more likely-than-not that sufficient taxable income will not be realized in the future to utilize all the future tax assets.

Note 9 **Related Party Transactions**

The Company incurred the following transactions with related parties consisting of current and/or former directors of the Company:

	February 28,	
	<u>2011</u>	<u>2010</u>
Consulting fees	\$18,863	\$25,926
Directors' fees	49,213	125,290
Salaries and benefits	<u>148,896</u>	<u>464,301</u>
Total	<u>\$216,972</u>	<u>\$615,517</u>

The amounts were recorded at their exchange amount, which is the amount agreed to by the parties.

Included in accounts payable and accrued liabilities is \$12,000 (2010 - \$Nil) due to directors.

Due to related parties are disputed amounts owing to former directors and to an affiliate of a former director, and are unsecured and non-interest bearing.

Note 10 **Non-cash Transactions**

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

During the year ended February 28, 2011, the Company did not enter into any non-cash transactions.

During the year ended February 28, 2010, the \$42.6 million of debt owed to Luxor was discharged in exchange for delivery by the Company of 78.26% of its interest in CML. The Company also increased the remaining carrying value of CML by \$7.3 million to reflect its fair value.

Note 11 **Comparative Information**

Certain comparative figures have been reclassified to conform to the current year's presentation.